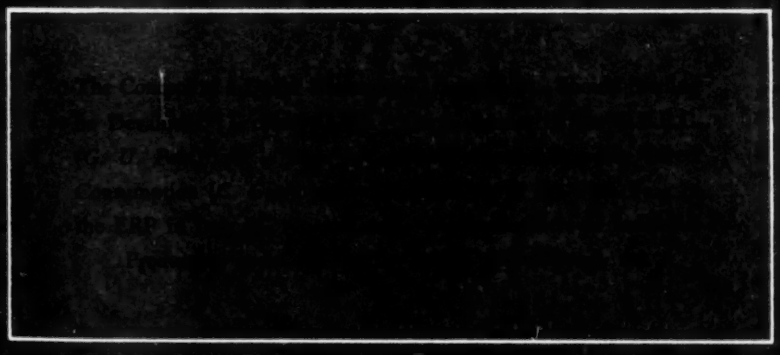
BANCA NAZIONALE DEL LAVORO
QUARTERLY REVIEW



ROME

BANCA NAZIONALE DEL LAVORO

HEAD OFFICE: ROME

VIA VITTORIO VENETO, 119

Condensed Statement of Condition, June 30th, 1949

(Lire)

LIABILITIES		ASSETS	
Capital	1,150,000,000	Cash, Balances with Banks & Money at call	57,928,581,747
Ordinary Reserve Fund	768,750,000		
	1,918,750,000		
Deposits & Current Accounts (Including Balance of Profit & Loss)	173,190,280,536	Investments: Govt. & semi-Govt. Securities & Treasury Bills	28,184,924,753
Cheques in circulation (*assegni circolari*)	9,716,379,306	Investments: Other Securities	725,039,839
Bills for collection	14,100,014,303	Contango, Advances on Securities & Loans	88,443,128,487
Guarantees & Acceptances for A/C of Customers	12,168,107,610	Bills receivable & Re-discounts	43,904,735,273
Sundry Accounts	16,391,915,795	Sundry Accounts	1,198,907,273
Staff individual Retirement Accounts	3,633,682,824	Premises	178,688,112
Unearned Discount & other unearned Income	1,612,982,721	Furnitures & Fixtures	1
	232,732,113,095	Customers' Liability for Guarantees & Acceptances	12,168,107,610
			232,732,113,095
Depositors of Securities	32,392,914,044	Securities deposited by Third Parties	32,392,914,044
Accounts guaranteeing special Accounts	11,651,851	Special guaranteed Accounts	11,651,851
Bank's Securities guaranteeing staff Assistance & Retirement Fund	3,557,340,611	Staff Assistance & Retirement Fund-Securities deposited by the Bank as guarantee	3,557,340,611
	268,694,019,601		268,694,019,601

AUTONOMOUS SECTIONS FOR SPECIAL CREDITS

SECTION FOR CREDIT TO MEDIUM AND MINOR INDUSTRIES

Capital and Government Guarantee Fund L. 2,286,044,407

SECTION FOR HOTEL AND TOURIST CREDIT

Aggregate Capital and Reserves L. 208,772,221

SECTION FOR CO-OPERATIVE CREDIT

Capital L. 500,000,000 - Government Guarantee L. 2,000,000,000

SECTION FOR MORTGAGE CREDIT

Aggregate Capital and Reserves L. 100,607,317

SECTION FOR CINEMA CREDIT

Aggregate Capital and Reserves L. 429,001,037

BANCA NAZIONALE DEL LAVORO QUARTERLY REVIEW

Vol. II, No. 9, April-June 1949

SUMMARY

It gives us much pleasure to publish in this issue two articles by Prof. T. Balogh, « *The Concept of a Dollar Shortage* », and « *Should Sterling be Devalued?* », in which the author discusses the basic problems arising from the large-scale disequilibrium in the economic relations between the European countries and the United States, and reasserts the need — if a sound and equitable readjustment is to be attained — of a strict policy of economic planning, the discriminatory unification of Western Europe as an economic unit and the planned expansion of European trade with the rest of the world.

Prof. Balogh thus takes up a position which is somewhat extreme, meeting with marked opposition not only in American circles and in Europe — which is now tending towards the liberalisation of her economy — but even in Great Britain itself. The complexity of the proposed system of controls and their incessant manipulation and adjustment to the changing requirements of the economic trend may well give rise to serious doubts — and Prof. Balogh himself is aware of this —, especially in some European countries which have experienced the serious results of administrative clumsiness and inefficiency.

But Prof. Balogh's analysis, now succint, now detailed, and his attempt to revise the principles of economic theory in the light of present-day reality, is decidedly stimulating. One might perhaps consider this « new language » as the scientific transcription of the great changes that have occurred in Britain's position. A critic might even suggest that objectives and responsibilities are regarded from a unilateral standpoint, the former in function of Britain, the latter as exclusively American. Undoubtedly some interesting historical precedents may be found and some pointed remarks might be made on this subject. But we think it is only fair, on the one hand to pay a tribute of respect to the vigorous realistic tendency and to the unprejudiced analysis that characterise these two articles, and on the other hand, to draw attention to a passage that sums up well the transitional and alternative nature of the solution he offers, its implications — which are not only British but European and world-wide — his desire to secure an equitable distribution of income and opportunity on an international scale, and the recognition of the importance of close international cooperation and of the path to which the Marshall Plan and Truman's Fourth Point lead: « *The "critics of multilateralism" are neither opposed to all "rules of the game" in international relations nor are they opposed to multilateralism if multilateralism is not conducted on the basis of rules which tend to perpetuate the inequalities of opportunity in the world. They want new rules which would energise the world to faster and more equal progress. The tenets of the general equilibrium theory, based as it is on* given *means, known "indifferences", perfect knowledge, must not be used to discuss problems of growth and problems arising out of the economic contact of different civilisations at different stages of their technical progress. Should the richer countries consent — in proportion to their recovery and wealth — to promote technical and economic progress in the poorer areas systematically, through grants and (low- interest) loans, this would obviously represent the most desirable solution, far superior to a system of planned and graduated discrimination* ».

* * *

In his article « *The Dilemma of the O.E.E.C.* » Prof. Giuseppe Ugo Papi sets forth the two alternate commercial policies between which the European countries must now choose, one aiming at self-sufficiency, the other at intensifying trade between the dollar area and the rest of the world. The first of these solutions would allow a moment-

ary saving of dollars, but would entail the autarkic development of the several national productions, with sacrifices beyond the possibilities of the convalescent European economies.

The author in giving reasons in support of the second alternative, defines the responsibilities of the participating countries and more especially of the United States in carrying out this policy and points out that the development of depressed areas in and out of Europe with American help might be decisive in « getting the wheel over the centre ».

* * *

In his brief note « *The Valuation of Commodities for Direct Consumption* », Prof. Corrado Gini makes a contribution to the methodology to be used in calculating the national income, of which the main outlines and conclusions were published in n. 5 of this Review (*The Content and Use of Estimates of the National Income*).

Prof. Gini shows that there is no alternative choice between the several price index numbers with which to value the commodities consumed by the producer himself. The difficulties involved in the valuation are indeed solved by making a simple analysis of structure of the price *general* index number. The solution therefore comes spontaneously, and this index number is proposed as the only possible one to be used in making the calculation.

* * *

In the survey « *Balance-sheet of the First Year of the ERP in Italy* » Dr. Giandomenico Cosmo sums up the fundamental data relating to the implementation of the ERP in Italy, pointing out the differences with developments in other countries, the characteristic features and the significance of the help received, the formation and utilisation of the Counterpart Lira Fund. The general comments with which the author accompanies his survey sum up what may be called a *communis opinio*, which is that the ERP has been and is of basic importance for Italian productive activities, but that it can hardly suffice to remedy within 1953 the very serious disequilibrium of the Italian economy caused by the exceptional and chronic unemployment. Italy must therefore insist on the need of fuller international cooperation and of a joint international effort aiming at facilitating mass emigraton. Perhaps ERP itself has not given in the first year of its application all the results that might have been secured. This is due to the obstacles and delays in its application, caused partly by procedural hindrances and partly by credit stringency on the Italian market which often makes uneasy the absorption of the grants for domestic concerns.

* * *

The compilation of « *Index Numbers of Industrial Production and Capitalisation in Italy* » has formed the object of heated debates, and the difficulties met with in making the returns and selecting the methods have claimed special attention. Prof. P. Battara reports on the results recently reached on this matter by the Central Institute of Statistics, which, though not yet definitive, afford a valuable instrument of guidance and clarification.

The Banca Nazionale del Lavoro assumes no responsibility for opinions or facts stated by authors whose contributions are published in the present Review.

All communications regarding the Review should be addressed to Banca Nazionale del Lavoro, Ufficio Studi, Roma, Via Vittorio Veneto 119.

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Stabilimento Aristide Staderini - Roma - Via Crescenzio, 2

The Concept of a Dollar Shortage

by

THOMAS BALOGH

The breakdown of the policy of convertibility of currencies, provided by the Bretton Woods agreement, within a few weeks after its first test in 1947 undoubtedly caused some discomfiture among its erstwhile advocates (1). They had failed to appreciate the grievous state of the European economy, and had hoped, rather naively, to be able to emerge from the breakdown of the world economic system of 1938 by trusting to the « free » market forces. Fortunately we did not have to pay the full penalty for taking their advice. The worsening of the international political situation resulted in a reconsideration of U.S. policy. The rigid dogmatism of Mr. Cordell Hull and Mr. Clayton was superseded by the more flexible approach of general Marshall and his expert advisers. A catastrophic fall in the standard of life and shrinkage of world trade was avoided.

Instead of admitting that they were wrong in their estimate of the magnitude of the disequilibrium in the world economy; and that the elimination of that large-scale disequilibrium is a matter totally different in kind from the maintenance of equilibrium once it is attained, (though it is questionable whether even on the most favourable assumption the two Bretton Woods funds would be sufficiently large to fulfil the purpose for which they were established), the orthodox economists now have evolved (2) a theory according to which the acute demand for dollars « is merely a consequence of the fact that many countries are unwilling or unable for one reason or the other to live within their means. The propensity to spend and to inflate is so strong that the equilibrium in the balance of payments is constantly upset » (3).

The opposite view, i. e. that the rise of the United States through two world wars to a position of pre-eminence has created problems of an unparalleled character, is dismissed by a pained imprecation: « Evidently even in the land of Adam Smith, Ricardo, Marshall, and Keynes it is necessary to point out again and again that trade is governed by comparative not by absolute cost » (4). The possibility that the United States might undersell the rest of the world, if perhaps not « all along the line », over a sufficient range to create large-scale disequilibrium and impose unemployment is regarded as rank heresy. It is argued, therefore, that inflation outside the U.S. should be stopped and currencies devalued. « Equilibrium » would then be restored, and all be well.

These complex arguments continuously switch between « pure » theoretical considera-

(1) Not the least cause of that breakdown was the complete loss of control over exchange transactions and the consequent capital flight, unavoidable as a result of the reintroduction of convertibility. This was predicted by the critics and had violently been denied by Lord Keynes. Cf. Oxford Institute of Statistics, *The Economics of Full Employment*, 1944, Chapter V, p. 174, and Lord Keynes' speech in the House of Lords, May 23rd, 1944, reprinted in *The New Economics*, ed. S. Harris, Knopf, New York, 1948, p. 375.

(2) Professor HABERLER, *Dollar Shortage*, in « Foreign Economic Policy for the U.S. », ed. S. Harris, Harvard, 1948. Also Professor H. ELLIS, *Dollar Shortage in Theory and Fact*, in « The Canadian Journal of Economics and Political Science », 1948, p. 358.

(3) HABERLER, *op. cit.*, p. 435. Identical views are expressed by Mr. MACDOUGALL: *Britain's Foreign Trade Problem: A Reply*, « Economic Journal », 1948, esp. p. 92; also R. HARROD: *Are These Hardships Necessary?*, p. 42.

(4) HABERLER, *op. cit.*, p. 436. This imprecation of Adam Smith seem to have become a sort of refrain in Professor Haberler's recent papers. It seems to recur more or less verbatim in almost every of his later writings, just as previously Marshall was invoked (instead of detailed statistical research) in aid of the assertion that price elasticities are high. Fortunately the results of scientific investigation are at last being published to relegate into the history of curiosa these aprioristic dicta. We may, nevertheless look forward to regressive quotations from Aristotle and Aquinas.

tions and advice of the most highly practical character. Professor Haberler's « equilibrium » position, implicitly taken as an « optimum », discloses his view of the nature of the « world economy » which underlies his policy recommendations. It demands that a country's international payments (perhaps excluding capital flight) (5) should be made to balance without any direct controls over payments, without quantitative restrictions, and without « resorting to crude protectionist policies which, even if they succeeded in alleviating transitional strains, would do so only at the cost of permanently impeding the international division of labor and preventing the optimum allocation of resources » (6).

The proof which has to be furnished by Professor Haberler in order to establish his case is not whether the United States is able by retaliatory action to enforce convertibility and non-discrimination. No one doubts that threats by the United States with her overwhelming military and economic power would be effective. *The problem is whether there is any ethical justification for the United States to use her power to enforce the rule of the unfettered price mechanism on other countries.* An attempt will be made in this paper to show that the « model » which underlies Professor Haberler's policy recommendations has no conceivable relations to the world we live in. Consequently Professor Haberler's « optimum » is devoid of any scientific meaning. Mr. Truman, General Marshall, and their expert advisers have successfully penetrated through the fog and uncertainty created by the orthodox expert, and tackled the problem of large-scale readjustment in the way most likely to succeed. That this fortunate outcome from the impasse, caused by the rigid dogmatism of the dominant « liberalistic » school of thought, is due to the double threat of Russia, to her military menace combined with the rise of Communist parties in Europe, does not detract from the intrinsic value of the progress made. The threat of a victory of left-wing extremism is an index of impoverishment much more accurate than *a priori* arguments based on irrelevant models.

(5) Professor Haberler at some points gives the impression that ever capital flight should be permitted (*Dollar Shortage*, *op. cit.*, p. 430). He rejects the current balance as a measure of disequilibrium, insisting on what he calls the current balance minus « equilibrating capital movements ». It is, however, difficult to attach any significance to this emotive concept. Capital movements even from high to low interest rates areas might well be « disiquilibrating », in the sense that they permit the maintenance or intensification of « disequilibria ». They end in bankruptcy. In any case, whether or not a country's borrowing is « sound », so much depends on the creditors' subsequent policy as to rob the concept of « equilibrating » capital movements of all sense. Efforts to combine a « real » (barter) equilibrium analysis of foreign trade based on absolute factor immobility with monetary analysis (usually through a primitive quantity theory) in the hope of obtaining a truly dynamic theory are doomed to failure. Cf. below (2) on the importance of the path of readjustment.

(6) *Op. cit.*, p. 440.

I

1. — Let us first turn to the so-called long-run problem, *i.e.* disregarding, for the moment, monetary disturbances. We need not suspect Professor Haberler of having a physical maximum in mind when he discusses the goal of his policy: though the phrase « optimum allocation for resources » might be interpreted in the sense of the point yielding maximum physical product. This concept, in the sense that the same output could not be achieved with less effort or a greater output with the same effort, has no economic relevance without reference to the distribution of the product. Should he think of maximizing some quantity of « utilities », or reaching « higher indifference levels », his difficulties are not less. Only if the following conditions were fullfilled — as they patently are not — would his optimum have any meaning (and we shall see not much meaning at that):

a) the original endowment of the units participating must be given, unchangeable by policy and *distributed optimally* (whatever that may mean). There must be full employment;

b) there must be *given* tastes and technical knowledge in the widest sense of the term: they must not be subject to alteration by conscious policy involving international trade;

c) perfect competition must prevail within (and between) countries; moreover, there must be free internal mobility of factors;

d) the relatives between social and private costs must be proportionate and must not be influenced by risk induced by foreign trade,

i. e. comparative advantages must be large and unchanging (7);

e) absolute international immobility of all factors including capital.

If these conditions are not fulfilled, « non-discrimination », commercial and monetary, would certainly not bring about an « optimum ».

The first condition is certainly not fulfilled because — quite apart from any other difficulty — of the vast increase, during the war, of inequality of opportunity and means between the United States and the rest of the world. Professor Haberler is guilty of confounding total and marginal conditions and neglecting increasing returns. He has also fallen foul of a fallacy already discovered by Marshall in failing to inquire into the distribution of original endowments. Indeed, one might say that *almost any position* which resulted from *some discriminatory action* turning the terms of trade of the United States against her would seem to *fit the description of « optimum » better* than which would be brought about by « non-discrimination ».

Moreover, and this is perhaps even more important, every single one of the other conditions required to justify Professor Haberler's « optimum » is *violated in such a way* as to *load the dice cumulatively in favour of the United States*. Thus the « optimum » of Professor Haberler and his colleagues must be rejected as false.

2. — The concept of a definite « long-run-equilibrium » towards which the system is tending, is itself subject to the gravest doubt. Professor Haberler, as we have seen, invokes high authority for, instead of proving, his dictum that it is *comparative* and not absolute costs which determine trade. If taken literally, this statement is obviously untrue. Comparative costs are unknown to entrepreneurs or governments conducting trade. They act (in the absence of direct controls) on the basis of *money prices* and *exchange rates*. It is wholly illicit to assume that *money prices* are proportionate to *long run social real costs*. We know that neither *private money* costs are proportionate to *social real* costs, nor are *prices* proportionate to *private money costs*. Moreover it is illicit to assume that the free market system possesses an inherent mechanism which would restore proportionality between these three sets of variables, *i. e.* maintain a. o. full employment. Comparative costs might be said in any meaningful sense to determine foreign trade only if equilibrium in the sense of conditions (*b*) and (*e*) of the previous section has *already been reached* and therefore no balances arise in the current account of any participating country.

But these conditions rob Professor Haberler's arguments of such relevance as it might still possess.

If a large-scale disequilibrium has arisen the concept of the eventual « equilibrium » position has no sense *independently* of the *path* taken. Its position will be co-determined by the path of readjustment. The path itself, however, is determined by absolute costs and monetary factors. Sustained inflation (or deflation) *e. g.* in a leading country will decrease (or increase) its competitive power and lead to structural changes (in comparative costs) which are likely to persist after the original disequilibrating effect is removed. In any case the enforcing of secondary readjustments by the restoration of the equilibrium of the country originally responsible for the disturbance might well depress opportunity costs to zero in other countries (8).

There is no earthly reason, for instance, why a country could not « undersell another all along the line » (9) provided loss of reserves takes place on the part of the deficit country. The short-run elasticities, which seem extremely low (whatever they may be in the long period), will further impede readjustment and may result in substantial lowering of the standard of life — through a worsening of the terms of trade — of those on whom readjust-

(7) Quite apart from anything else, tariffs must not be imposed by the temporarily surplus country against an increase in imports. There is no suggestion that the U.S. will not protect itself against depreciation. The I.T.O. certainly permits raising tariffs in this case.

(8) Cf. my article, *Exchange Depreciation and Economic Readjustment*, pp. 277-285 in « Review of Economics and Statistics », 1948, and J.J. Pollak, *Exchange Depreciation and International Monetary Stability*, *ibid.*, 1948, pp. 173-87.

(9) Cf. my paper, *The U.S. and International Economic Equilibrium*, *op. cit.*, as well as Professor Samuelson, *Disparity in Post-War Exchange Rates*, *ibid.*, p. 407.

ment is imposed, *i. e.* of the dominated, that is the weaker, economies.

The dominant economy in addition might cause a further and unnecessary lowering of the standard of life of its partners by imposing unemployment through employment effects inseparable from the price-movements, (10) income effects, which could have been avoided had different, more discriminatory means been used to restore the balance in international payments (11). Any shock in the dominant economy by its multiplier effects and reactions is bound to cause fluctuations much greater in extent than the original cause. On the other hand the repercussions of « readjustments » on the surplus countries must not be underestimated. The richer a country the more difficult it is for her to maintain monetary equilibrium and the more dangerous shocks from the outside.

It is for those who from thime to time exhume Say's theorem — having preiodically busily interred it (12) — to prove that employment effects are not bound to arise and thus to affect the eventual position of « equilibrium ». The growing uneasiness of the « orthodox » school is reflected by the fact that they have, without exception, refrained from recommending the observance of the « rules of the game » to the United States. According to orthodox canons the United States should inflate (while the deficit countries deflate) until the resultant rise in incomes and prices helps to wipe out her surplus. In this way the extent of readjustment abroad would be lessened. The realisation that this procedure would in fact aggravate the European crisis as long as shortages persist (apart from inducing a domestic cumulative disequilibrium in the United States) (13) has begun to dawn. Yet its corollary, that orthodox measures cannot minimise the lowering of the standard of life of the poorer countries, is still being fiercely resisted.

It has been argued that the cumulative processes induced by monetary « readjustment » are merely short-run phenomena and that if protective measures are introduced the long-run opportunity costs will rise by more than the gain from the employment effect. Whether or not this is so cannot be decide on general *a priori* grounds. It will depend on the extent of the long-run comparative cost differences and of the degree of unemployment. If unequal dynamic progress in two regions makes a periodic recurrence of the « shifts in equilibrium » probable and thus necessitates periodic readjustments, the opposite is more likely. Moreover, the risk of such recurrence itself will undoubtedly influence « comparative costs », retarding economic development — to the detriment of the weaker exporting nations. This was precisely what was threatened by the growing dominance and faster progress of the United States, if suitable measures had not been taken to bring about a better distribution of factor endowment between the Western contries so gravely upset by the war.

The volume of trade — and this Professor Haberler seems to forget periodically — is the result not merely of cost differences (comparative or otherwise) but also of international lending. Lending will, moreover, tend to decrease comparative cost differences due to the inequality of original factor-endowment and thus tend eventually to reduce the *proportion* of trade to national income though not necessarily its absolute volume. At the same time lending or grant will tend to decrease the inequality of opportunity in different parts of the world. *Thus loans or grants represent an alternative to discriminatory commercial policy as a means to reduce inequality*. Thus, *provided* grants and loans continue, a larger scope for the principle non-discrimination would be compatible with the welfare of the less-well-endowed countries. But this conclusion is entirely beyond the model of orthodox economists which in basic matters disregards capital (and other factor) movements (though mentioning them whenever convenient for their argument).

Thus we may conclude that the denials of the problem of a dollar shortage in the sense

(10) On the monetary mechanism cf. my paper, *The International Aspects of Full Employment*, in « Economics of Full Employment », Oxford, 1944.

(11) Moreover, if Say's law is thus dropped at any moment through the « path of readjustment », as it must be, comparative costs become meaningless: for the country suffering from unemployment opportunity cost of a commodity sinks to zero or below.

(12) *e.g.* Professor HABERLER, *New Economics*, ed. S. Harris, p. 173.

(13) As in 1927: it is interesting to see how little reference is made nowadays to the colossal failure of the Norman-Strong attempt to master a disequilibrium similar to the current problem by orthodox methods.

1) that discriminatory methods will lessen the required extent of readjustment of the weaker countries, and

2) that discrimination will also produce a more equal international distribution of income and opportunity

are based on a model of the international economy which *a priori* excludes a discussion of the problem which the writers set out to investigate (14).

II

Unconditional multilateral non-discrimination and convertibility — which underlie both I.T.O. and Bretton Woods — stand condemned as neither just nor workable under present conditions. They were unjust because they were nothing but a simple extension of the doctrines of classical welfare economics based on a closed and perfectly competitive economy to the infinitely more complex problems of the present broken world economy.

Even for a closed economy the whole analysis depended on the assumption that perfect competition and perfect foresight prevailed. Moreover, even perfect competition, the integral counterpart of the free-trade dogma, could not be demonstrated to bring about an optimum distribution or use of resources and output unless the distribution of wealth and income at the starting-point was « optimal ». That perfect competition is in any case a figment of imagination, and the conclusions based on it cannot be applied without modification, was ignored to a surprising extent. The distribution of wealth even within a modern community possessing, and using to the full, all the paraphernalia of taxation and social services remains « unjust » in the sense that inequalities exist which cannot be attributed to the need to stimulate output. If the conclusions of classical welfare economics cannot

(14) Mr. MacDougall's further interesting attempt at demonstrating (*Notes on Britain's Bargaining Power*, in « Oxford Economic Papers », New Series. January 1949) that « Britain's bargaining power as a large importer is not so great as is sometimes thought » is based on a similarly static and equally irrelevant model. His concept of exploitation represents an illicit application of the tools of equilibrium analysis to problems connected with extreme disequilibrium. Moreover, as at the margin of production the risks attached to the *extension* of the output of *primary products* is much greater than that attached to *manufactures* (because the supply of and demand for them is inelastic), the advantages of guaranteed markets and, therefore, of Britain's capacity to reduce the risks of primary producers cannot be measured by the percentage which Britain's imports represent in world imports of individual commodities or other countries' exports. In earlier writings (« Economic Journal », March 1946, March 1947 and March 1948) he maintained that the ratio of a country's total exports to exports to Britain was a fair measure of Britain's bargaining power. On being shown that Britain might be an overwhelmingly important market for certain products, the production of which might not be easily abandoned or switched (cf. my article, *Discrimination*, in « Bulletin of the Institute of Statistics », Oxford, 1948), he now undertakes a detailed investigation of the importance of the United Kingdom by countries and commodity markets. He calls countries from which Britain bought an appreciable share « exploitable », and investigates the relation of their exports to their own national income. He concludes that Britain is vulnerable because she imports the bulk of the vital commodities from few producers and their exports are also consumed at home. On the other hand « non-exploitable » countries form a large proportion of the demand for manufactures.

Reciprocal purchase agreements permit the extension of production in both regions and eliminate the social costs involved in frequent readjustment. Nor must we forget that unemployment or depreciation forced upon Britain through « readjustments » will react on her suppliers. Deflation in Britain has the same effect as tariffs or quotas. The indirect social costs of the secondary readjustment might well be higher in both countries than concessions in price if such are demanded. Unless extreme mistakes are committed in the choice of the products, the losses involved in this « increased rigidity » are very much lower than the gains resulting from the riskless extension of production. *And it is this extension of production which is the crux of proposals to enter into reciprocal agreements.* Britain and Europe should try to avoid competing for a *given* world market but organise for an *increase* in the production of primary products and their exchange against manufactures. It should not be forgotten in this context that the inelasticiy of demand and supply which characterise the markets of primary products is only a source of strenght for the producers when there are scarcities. Abundance results in weakness. This fact is well understood and results in a tendency to restrict — or not to expand — the production of primary products more than justified by objective criteria, for fear of overstepping the danger limit. The elimination of this fear is essential if the threat of continued shortages is to be overcome. But it could only be overcome by long-term guarantees. Mr. Mac Dougall's model is incapable of dealing with the problem. It is not so much an improvement of the terms of trade which should be aimed at, as a considerable increase in the volume of trade. This would result in mutual gain and not one-sided exploitation.

The period immediately ahead, when the extreme scarcities of food-stuffs due to the crop-failures in Europe have already been eliminated, and the increased competition of manufactured products has not yet fully materialised, will probably provide a good opportunity to prepare the basis for such long-term arrangements and dissipate suspicions of « exploitation ». At the same time measures should be taken to reduce as much as possible a head-on clash between the European exporters' manufactures by stimulating planned development, *i.e.* demand for their products. Mr. MacDougall's fears that a European regional system would impair the prospects for British exports and invite United States retaliation (*ibid.*) have not proved justified. It is to be hoped that the O.E.E.C. will learn from these lessons and experiences.

provide much guidance to domestic policy, still less do they apply in international relations, where there is no taxing power and any redistribution of international wealth and income can only come about by way of unilateral gifts and default or by a conscious modification of the terms of trade.

The « critics of multilateralism » are neither opposed to all « rules of the game » in international relations nor are they opposed to multilateralism if multilateralism is not conducted on the basis of rules which tend to perpetuate the inequalities of opportunity in the world. They want new rules which would energise the world to faster and more equal progress. The tenets of the general equilibrium theory, based as it is on *given* means, known «indifferences », perfect knowledge, must not be used to discuss problems of growth and problems arising out of the economic contact of different civilisations at different stages of their technical progress. Should the richer countries consent — in proportion to their recovery and wealth — to promote technical and economic progress in the poorer areas systematically, through grants and (low- interest) loans, this would obviously represent the most desirable solution, far superior to a system of planned and graduated discrimination. But the latter in turn is preferable to the statism of general equilibrium. It would be insane to try to achieve « balance » in the international payments of the United States *e. g.* by reducing her agricultural output to domestic requirements (or below). It is clear that an agricultural revolution is taking place which will violently change value-productivity per man in agriculture, and the future « opportunity » cost relatives are wholly incalculable. Moreover the world *needs* the United States output and the domestic social consequences of the « free » play of forces would be most undesirable (15). The alternative of systematic grants, however, could not be considered practical politics prior to the Marshall-Truman declarations. It should gradually be extended by the participation of European countries in the grants to underdeveloped territories, after they have themselves recovered.

With the inauguration of the Marshall Plan a splendid beginning has been made for the reconstruction of a multilateral world economy. For its full fruition, however, certain permanent changes in the structure of the world economy will have to be envisaged and promoted.

The first and foremost condition of success is the clarification of the United States policy in diminishing the strain of readjusting the world dollar balance after the prospective end of Marshall Aid. This demands (a) unilateral United States tariff concessions to increase direct imports to the U. S. (16); (b) toleration of a system of discrimination against the U. S. within Western Europe and in Western Europe's trading relations with other countries, *i. e.* the revision of the Havana Charter; (c) some indication of the United States domestic policy in maintaining demand at home; (d) some indication of the magnitude of non-tied loans or grants to development areas. The task before Europe is to achieve not merely an overall equilibrium of payments but also a substantial excess of exports in order to resume investment (and repayment of war debts) so as to strengthen its supply position and enable it to obtain reasonable terms of exchange.

While the extraordinary dependence on United States and other dollar areas supplies must and will be reduced as European production recovers, there is no reason to aim at a bilateral *European* as against a *world* dollar balance, though limited unilateral tariff concessions by the United States would promote the attainment of a better equilibrium. All efforts should now be concentrated on proving to the United States that effective multilateralism will almost exclusively depend on her policy during and after Marshall aid. If by international co-operation the United States balance of payments (including capital account) can be made unfavourable with non-European countries through extra-european development programmes, and by special purchasing arrangements the markets for European manufactures increased, if a suitable stabilisation policy is pursued in the United States, effective multilateralism

(15) Cf. on the order of magnitudes concerned my essay, *The United States and the World Economy*, in « Foreign Economic Policy for the United States », ed. S. Harris, Harvard 1948.

(16) But cf. qualifications in the previous paragraph.

on a world scale would have been given a new chance. The *flexible* Marshall Aid technique, as contrasted with the grossly inadequate fixed quotas of the Bretton Woods institutions, will provide a firm basis for this second effort at international reconstruction. As long as there is — as there obviously *now* is — a chance of securing full United States participation in such a world-wide scheme *no* other, much less attractive, alternatives should be attempted as their immediate restrictive implications would be bound to cause disillusionment in the United States (17). This view does not imply a retraction of previous criticism against Bretton Woods as unjustified, but represents an acknowledgment that circumstances and possibilities, in the dominant economy, the United States, have changed (18).

Unlike the case against monetary multilateralism, the case against non-discrimination is more urgent than ever before. There is grave danger that the United States help, instead of being dedicated to building up a viable regional unit, will be used to maintain strongly autarkic national units whose position in a seemingly non-discriminating, multilateral, world will be so weak and unstable, as to crumple at the first stress, whether caused by a reappearance elsewhere of cyclical fluctuations or because of the steady unfavourable trend of the terms of trade.

Much educative work has to be done in this respect. We must obtain the consent and co-operation of the United States in the organisation of a strong European economic unit (19) — which for a period *far longer* than Marshall Aid would demand consent by the United States to preferential arrangements both within Western Europe and between Western Europe and certain complementary outside territories. Yet even enlightened economists with obvious sympathy for the plight of Europe interpret this plea as a distrust of and hostility to United States prosperity (20). Nothing is further from the intention of those who advocated a close economic co-ordination of Europe. What should be attempted in the interests of all is to prevent a *widening* discrepancy between the United States and the rest of the world and the tendency by the United States under the slogan of non discrimination to secure a monopoly of, and prevent others from developing, industries with the greatest degree of increasing returns, which would inevitably result in the widening of the difference in the standard of life.

(17) This is the case against the British Four Year Plan submitted to E.C.A. Cf. my paper, *Britain, the O.E.E.C. & World Economy*, in « Bulletin of the Institute of Statistics », Oxford, February-March, 1949.

(18) Cf. my critique of Lord Keynes's last article in defence of Bretton Woods, *The United States and the World Economy*, in « Bulletin of the Institute of Statistics », Oxford, October, 1946, p. 322.

(19) Cf., *Discrimination*, in « Bulletin of the Institute of Statistics », Oxford, July and August 1948, and *The United States and International Economic Equilibrium*, in « Foreign Economic Policy for the United States », ed. Harris, Harvard, 1948.

(20) *e.g.* Professor S. Harris, in « Foreign Economic Policy for the United States », *op. cit.*, p.ix., and a review of this book by K. Hutchinson in the « New York Times », November 14, 1948.

Should Sterling be devalued?

by

THOMAS BALOGH

The Marshall Plan and Western European reconstruction have plainly arrived at a most critical point. The next six months must give an answer to the question whether the steady improvement which we witnessed in 1948 will continue. The progress towards re-establishing the disturbed equilibrium between Europe and the Western Hemisphere was admittedly slower than the internal recovery in the former. But one could hope that the practical demonstration of the success of the conception underlying the Marshall Plan would lead to its broadening and intensification in order to reduce the grave discrepancy in the international distribution of wealth and income.

The U.S. slump inevitably complicates and aggravates the long-term problem of the dollar shortage from which, however, it should be severely distinguished. It will inevitably depress U.S. demand and increase the pressure of U.S. exports. It will therefore worsen the dollar shortage. Thus it underlines the importance of reinforcing the policy of Marshall Aid and Mr. Truman's Fourth Point as the only hopeful way of escaping from a competitive vicious circle of deflation and depreciation. It would be a mistake to suppose that a premature abandonment of the discriminatory unification of Western Europe as an economic unit and planned expansion of its trade with other countries would lead to anything but a catastrophic drop in international trade and income.

Unfortunately the short-sighted pressure of American business to secure foreign markets has led to a recrudescence of the earlier « free market » dogmas associated with the names of Mr. Cordell Hull and Mr. Clayton. Ignoring the fact that dollar purchases are limited by the supply of dollars only they demand a devaluation of European currencies and a restoration of convertibility at least within Western Europe. Especially the need and probability of the devaluation of sterling is being canvassed with unfavourable consequences on Brithis exports.

No-one would deny that there is always a degree of deflation and unemployment which will balance the current account of any country at any rate of exchange without restrictions. But the question is whether the position then reached will represent the highest standard of life in the poorer countries. In the present paper the view will be put forward that it is likely to endanger the recovery in Europe and lead to unnecessary hardship. In particular it will be contended that:

(a) devaluation *at present* would do little to improve our dollar unbalance and might worsen it;

(b) apart from the grievous consequences of the decrease of U.S. imports there is little reason to fear increased competition of the U.S. in « third » markets so long as pressure in favour of (even partial) convertibility of European currencies into gold or dollars is resisted;

(c) on the other hand a devaluation might lead to a breakdown in the policy of price stabilisation and thus of the policy of planned full employment;

(d) in the meantime the Export Credits Guarantee Department should be enabled to grant insurance policies against devaluation so as to remove the unfavourable effects of the irresponsible talk about an impending devaluation on current exports;

(e) eventually, when the extent of the U.S. slump and the nature of the measures contemplated in that country are better known, a readjustment of all currencies might be contemplated, combined possibly with a revaluation of gold;

(f) immediate steps should be taken to call a Western economic conference to take steps to arrest the threatening slump emanating from the U.S.

1. Two somewhat divergent arguments are used to support devaluation in the immediate future.

(a) It is suggested that the U.S. slump would aggravate the direct dollar gap: the U.S. will undoubtedly buy less in Great Britain and the sterling area. Devaluation is, therefore, advocated to counteract the effects of the slump, by cheapening British exports.

(b) It is argued that there is growing discrepancy between British (European) and American export prices. Hence British (European) manufactures will be displaced by American exports, thus impeding the restoration of economic viability to which we are pledged by the Marshall Plan.

2. The first line argument implicitly applies to the present highly peculiar position considerations which are based on assumptions which do not hold. In particular it is assumed that world demand is given and will not be affected by devaluation, and that free competition obtains (that is, that international markets are perfect). This is patently untrue.

It is not specified whether an *isolated* move by Britain is to be contemplated or a *general* revaluation of currencies in terms of the dollar. Nor are there any indications given as to the quantitative aspect of the measure. It should be remembered, however, that the Bretton Woods agreement precludes a unilateral devaluation of a currency (*i.e.* a devaluation without the consent of the Fund) by more than ten per cent and that in principle only countries which suffer from « fundamental disequilibrium » can ask for permission to change the value of their monetary unit. Most countries, one presumes, would qualify on the latter ground for permission to devalue their currency. They all suffer from a dollar shortage. Most of them also suffered from a sterling shortage and only the more liberal attitude on non-essential imports and the release of blocked balances has ameliorated their position.

The question is therefore resolved into what degree of devaluation is to be contemplated by most countries (1). A unilateral devaluation of the £ not followed by most other currencies can be ruled out as extremely improbable (2). On the contrary it is probable that in a race of competitive devaluation, sterling will not on the whole (as happened in the 1930s) be left behind, having eventually a greater rather than a smaller problem to face in its relation to the non-dollar area. The relation of the smaller countries to Britain and the sterling area is more vulnerable than the position of the non-dollar countries as a whole to the United States. As the following table shows, their trade with each other has been much more evenly balanced. A disruption of this trade, which has been intensified at great cost and effort, coming on top of the dollar shortage would hardly be bearable.

THE TRADE OF O.E.E.C. COUNTRIES WITH NON-PARTICIPANTS (3)

Period	Dollar trade		Non-dollar trade		Total	
	Exports	Imports	Exports	Imports	Exports	Imports
1948-49	1,539	6,340	4,614	6,131	6,153	12,471
1949-50	1,921	6,326	5,341	6,238	7,262	12,564

(1) It is difficult to feel that even countries like Belgium could be kept at the present parity with the U.S. if most others devalued. Their severe unemployment would be further accentuated. Even in cases such as Australia whose most important export prices are determined by the dollar market would hardly be able to maintain the old parity on account of the pressure of imports on their own industries. The German and Japanese parities are determined by the Allied (U.S.) Occupation Authorities. But it is difficult to believe that in the case of either those Authorities would be willing to face the worsening of the balance of trade and of unemployment inevitable if they did not follow their non-dollar currencies.

(2) Indeed it is more probable that the problem of sterling will arise as a result of a devaluation of the currencies of those European countries which have adopted a more or less laisser-faire policy. From the point of view of effective planning of their recovery and of social justice decontrol was obviously premature. And a devaluation will further worsen internal social conditions because of the fall in real wages, which is its first impact effect. Nevertheless it will be as difficult to isolate Britain from the effects of a devaluation in Europe (as the growing unemployment will lengthen the period of wage adjustments) as it would be for the Continental countries to ward off the consequences of an isolated British devaluation. It is this point at which the fate of an ordered European reconstruction will in effect be decided.

(3) O.E.E.C. Report on the 1949/50 Programme, Tables II and IV, pp. 115 and 117.

The problem of the degree of devaluation necessary will be determined mainly by the flexibility of European demand for dollar imports and the changes of U.S. demand for European exports. We must bear in mind, however, that these relations are exceedingly complex: they are by no means determined by the reactions of buyers to price changes alone (4).

(a) On the European side imports from the U.S. are not in most countries (and certainly not in Britain) limited by an interaction of domestic price and income but are directly determined by direct regulation (5). Devaluation and a rise in price as such would, therefore, not necessarily affect them. A cut in imports from the U.S. as they represent necessities, would have to be enforced by rigorous measures directly cutting demand or, alternatively, by a general and severe deflation. In the case of Britain the visible import surplus from the United States which in 1948 had been reduced to below £ 10 million per month (£ 113.6 m.) has in the first two months of this year again risen to £ 11.5 and £ 12.8 million respectively. The Canadian trade showed a deficit of £ 12.3 (£ 149.4 m. for the year) and £ 8.1 and £ 9.7 million respectively. Imports from these two countries were running last year at an average monthly level of £ 15.4 and £ 18.1 million respectively.

The share of imports from the Western Hemisphere was to have decreased from 46 per cent in 1947 (or £ 697.4 m. of which £ 121.8 m. Argentine and £ 168.2 the rest of the hemisphere) to 28 per cent in the first half of 1949) (6). Moreover part of the Western Hemisphere imports (*e.g.* Argentina) need no longer be reckoned as dollar imports as they are not burdened with a convertibility clause and British export capacity is being restored. Nevertheless the residue, especially Canadian wheat and U.S. tobacco, consists of items difficult to compress. Nevertheless cuts will have to be undertaken, especially with respect to petroleum, paper-pulp, etc. imports if only to strengthen our bargaining power (by showing the disastrous consequences of the present trend to the U.S. herself). It should be noted, however, that such measures would in part aggravate the problem of Western Europe as Britain would force them to switch from sterling to dollar purchases. But this power of curtailing European sterling supplies may be valuable when it comes to working out a common policy for Western Europe. Should the volume of dollars available for imports from U.S. be severely cut the reintroduction and cutting of rations will have to be considered in order to equalise the sacrifice enforced. In any case no further relaxation of control at any stage of the production process involving dollar supplies must be contemplated.

So long as the U.S. deflation continues unabated, the argument for devaluation as a means of cutting imports would favour not a devaluation of a fixed percentage but « letting the pound (and other European currencies) finds its own level », *i.e.* the abandonment of a fixed parity with the dollar, as U.S. prices will fall further, necessitating a repetition of the experiment. The effect of this policy on confidence and thus on the capacity of the Authorities to enforce exchange controls, however, would be devastating. The advocates of devaluation therefore must be in favour not merely of devaluation but also of the simultaneous adoption of deflation and decontrol. They do not hope for « equilibrium » from a « *cut* » *in prices* but really *from unemployment and a fall in demand*. No doubt almost any rate of exchange is compatible with « equilibrium » in this sense. But it cannot be held to « maximise » welfare in any sense of the word.

(b) The case is equally weak so far as exports are concerned. The most massive of sterling exports to America consist of raw materials and foodstuffs from the sterling area and their

(4) Cf. my essay « The International Implications of Full Employment ». Oxford Institute of Statistics *Economics of Full Employment*, 1944, esp. pp. 152-4.

(5) It depends directly on the supply of dollars.

(6) The impact effect of a (say) 20 per cent devaluation with respect to Northern North America and dependencies only (and provided there is no fall in prices in that area as a result of the devaluation) would increase the price of roughly 10 per cent of total available supplies in Britain. This represents an increase in sterling price of some £. 100 millions as dollar imports amount to, say, £. 500 m. out of a total supply of goods of some £. 6,000 m. Thus devaluation would raise the price-index by perhaps 2 per cent. It is to be feared, however, that even an almost imperceptible rise might unleash wage-demands of much greater magnitude as wage stabilisation has been subjected to a number of irritating strains already.

dollar price is fixed by American demand (7). Indeed an increase in supply consequent to an increase in £ prices due to devaluation might cause a further fall in total proceeds, as demand is not likely to increase with declining dollar price. There is no appreciable competitive supply available in the Western Hemisphere which could be displaced by sterling exports. The most important are as follows:

Merchandise	in $ m.
Cocoa	193.7
Tea	45.1
Rubber	320.6
Sisal	34.4
Whisky	62.7
Wood	307.7
Gold U.K.	1,095.4
» S.A.	491.4
» Br. Pac. Islands	2.6
Total from U.K. (excl. whisky)	202

It is much to be hoped that the U.S. Government will accelerate the stockpiling programme and similar measures to stabilise the increase of primary producers hitherto postponed for fear of creating inflation. It would be folly to permit the foundering of non-Soviet recovery at this stage. This would be the most important step in stabilising the supply of dollars to Europe.

As far as direct British exports to America are concerned, it is not probable that American demand would expand sufficiently if British exports are made generally (in contrast to *selectively*) cheaper as to more than offset the fall in dollar prices, especially if Britain tried to force the pace during a depression. The American markets for British products are mostly limited because outlets to, and knowledge on the part of, the final consumer in the Middle and Far West of America are lacking. Even in the Eastern Seaboard they are little known. It is the imperfection of markets, the consequences of U.S. product differentiation and advertising which are the main obstacles in increasing sales, apart from the U.S. protectionism. To open up a market represents a heavy capital investment and this capital investment is only practicable if the extreme uncertainties consequent on the vagaries of American customs procedure and tariff policy could be eliminated (8). Even then it seems unlikely that the typical small firm in Britain could do much. The larger firms have their own factories or are allied to American factories and will not compete there.

A collective (trade or state) financed sales campaign and the establishment of collective representation of British industry in the U.S. is a much more hopeful method (9). If successful, however, it would come up against vehement hostility, especially in a period of declining prices and output. The insistent gossip about a pending devaluation of sterling has created an objective problem in relation to all countries which do not expect to follow sterling. In all these countries importers will be chary in committing themselves to orders as they hope for a fall in prices (in terms of their currencies). Denials, however profuse, do not eliminate this effect. In order to counter the danger the Export Credit Guarantee Department might be instructed to issue 6 months insurance policies against devaluation, or the Bank of England should sell 6 months forward dollars against sterling, against legitimate exports to hard currency areas.

These observations would seem to hold good for any situation in which there is no over employement, in which, that is, U.S. demand does not increase at a rate faster than U.S. productive capacity.

It would be possible to stimulate American demand for foreign imports by a simplification

(7) The authorities fortunately seem to have retreated from the principles of Bretton Woods which prescribed devaluation as the panacea for « fundamental disequilibrium ». It is curious that it has only recently been realized that so far as the dollar area is concerned, the sterling area is a *primary producer* and not a manufacturing world demand and the consequent *improvement* of the terms of trade of the U.K. *proper* (as against the sterling area) aggravates rather than improves the dollar gap. It is, moreover, certain that (being exporters of luxuries and capital goods rather than basic necessities) our volume of trade suffers more than proportionately when world demand declines.

(8) The importance of customs procedure is shown by the fact that while average duty collected on dutiable commodities has decreased from 36 per cent in 1938 to 25.4 per cent in 1946, 19.4 per cent in 1947 and 13.7 per cent in 1948, the volume of dutiable imports did not increase more than could be expected from the increase in non-American production and in the U.S. national income.

(9) The extreme respectability of the new U.K. Export Committee and their limited power do not presage a very aggressive and successful sales campaign.

of customs regulations and practices or by a unilateral abolition or lowering of the U.S. tariffs. Certain promises have been made with regard to the former at the time of the conclusion of the General Agreement on Tariffs. Their implementation is as yet uncertain because of the unlikelihood of any early consent of Congress. The general reduction of U.S. tariffs has had disappointing results. While the maintenance of quantitative regulations by most countries outside the U.S. has had the effect of bringing about a *de facto* unilateral decrease of American protection, *de jure* the concessions were multilateral and balancing. The U.S. however retained the right of revoking concessions should they prove « detrimental » to domestic producers. This uncertainty must have had (even apart from the stringent customs procedure) a discouraging effect on would-be foreign exporters to the U.S.

Uncertainty has been further increased by the recent slump in the U.S. While national income has only fallen from 233 billion to 220 billion, or 5 per cent, imports in May show a decline of not less than 14 per cent or almost double the rate. The apprehension that U.S. marginal propensity to import was relatively higher than the average (though absolutely still very low at even the 1948 demand levels) seems to be borne out (10). A total decline of U.S. imports from 7.1 billion in 1948 to the level of 1947 (5.7 billion) is a distinct possibility and a considerable part of the loss might well fall on the sterling area. The fall in the supply of dollars might represent a large portion of U.S. exports to this area which they now contribute to finance.

We must conclude that the argument for devaluing sterling (and other non-dollar currencies) has little to commend itself at the moment. It is unlikely to improve the dollar balance and might worsen it. In any case it is bound to depress the standard of living unnecessarily and might retard an inflationary spiral.

(10) It must be feared that an aggravation of slump will make even greater inroads on imports as the demand for motorcars, which has not yet been affected, will also certainly begin to suffer. An attempt at aggressive competition by Europe would under those circumstances have serious political consequences on the U.S. domestic scene, and, thus, on the fate of E.R.P.

3. Another train of thought represented by the more sophisticated critics (*e.g.* the *Economist*) argues that devaluation has become necessary, not so much because of the desire to gain American markets but because of the need to retain third markets against American competition. This is a more plausible argument but one which is still not sufficiently discriminating.

(i) We must, first of all, differentiate between a discrepancy of prices due to a disproportionately large increase in British wages; a discrepancy due to discriminating high prices being charged for exports, and, last but by no means least, the consequences of a redirection of imports from the dollar towards the sterling and other « soft » currency areas.

(a) Calculations made by the Economic Commission for Europe (11) show that British wages per hour increased 14 per cent less than those in the United States, if account is taken of the depreciation of the pound in 1939 (12). Productivity in the latter, however, increased more than in the U.K. Relative efficiency wages, therefore, are practically unchanged. Such calculations are subject to a large margin of error; they leave out of account the need for increased European exports but they tend to show that the pressure on Europe originates in the much higher rate of technical progress in the U.S. and her more aggressive selling policies which secure important monopolistic advantages for her products (*e.g.* tied loans). It is probable that the depression will very much increase this pressure, to which all other European countries are also exposed. The explanation is provided by the colossal expansion in the U.S. during and immediately after the war, when Europe and other countries were in the doldrums. It would be contrary to the spirit of the Marshall Plan if readjustment were to be enforced by a sudden sharp cut imposed on the European standard of life.

(11) *Ibid.*, p. 107, Table 68.

(12) This depreciation was also undertaken at a wrong moment as it lead to decreased dollar proceeds, despite of the fact that U.S. business was expanding. A subsequent adjustment during the war would have been entirely in accordance with the agreement put forward in this paper. The short and long term policies in these matters conflict and it depends on the historical situation when the switch between them should take place.

Unilateral U.S. help, *e.g.* by onesided tariff reductions or by Marshall Aid, might in due course diminish this particular cause of disequilibrium.

Thus the discrepancy between the price of British (European) and American supplies due to the higher rate of technical progress in the U.S. would make it desirable to discriminate multilaterally against American exports and thus deliberately to worsen U.S. terms of trade, if the British and European standard of life and employment are to be maintained without continued and increased direct aid. In other words, Europe needs better treatment in the U.S. and preferential treatment in other markets if the dollar shortage is to be eliminated and a return is to be made to « market economics » in international trade in the teeth of America's disproportionately growing competitive power, without a sharp rise in the international inequality of incomes.

(b) Secondly, attempts have been made by countries, including Britain and the soft currency area, to charge discriminately high prices for the exports of essential products to other soft currency areas, the discrimination being in proportion to the softness of the currency. Thus (so far as some of these deals are concerned) a system equivalent to a hidden devaluation of the soft currencies in varying proportions has been practised. The new report of the European Economic Committee (especially Chapter 5, sub-section 3) gives an excellent account, and tries to estimate the extent, of some of these discriminatory practices. In the case of steel up to 50 per cent, in the case of coal up to 100 per cent, discrepancy was found. The discrepancy between the home and export price index [February 1949 222 (1938 = 100) as against 192.3 for manufactures on the home market] shows that these practices are not restricted to a few instances. In so far as home market prices cannot be said to be below costs there is a very substantial margin in at least a considerable number of export prices for a readjustment without undue hardship and without devaluation. A roughly ten per cent cut in export prices should be manageable in the less competitive trades. But it is more favourable to Europe to cut export prices only where necessary and where some favourable result is likely instead of cutting it by a given proportion through devaluation.

Decontrol over a large field of home consumption even in Britain (not to talk of the Continent) has much weakened the power of the Authorities to force exports despite the possible fall of profit margins below those still obtainable in the home trade and tends to favour the adoption of a general deflationary policy in order to discourage home sales. In view of the unfavourable developments European Governments should take steps to restore those controls on home consumption (rationing and limitation of supplies) which would enable it to impose selective pressure on industry instead of having to enforce a general cut in incomes, consumption and consequently mass unemployment (13).

(c) The last problem involved in this growing price discrepancy is the problem of the redirection of trade due to the dollar shortage. Certain supplies which could hitherto be acquired in America must increasingly be purchased in the soft currency area. Accordingly, demand for sterling or other soft currency supplies has increased. This would inevitably have brought some disorder into price relations, tending to raise soft currency prices above dollar prices at official rates of exchange. The difficulties have, however, been increased by the almost simultaneous fall of demand and employment in the dollar area. This decline in the U.S. was not entirely due to the shift of European demand away from American markets though the latter must undoubtedly have intensified the trend. There is little that can be done by Europe to remedy this particular problem due to the exceptional position of the U.S. in the world economy. If as we have argued it is probable that Europe's dollar receipts for exports in the short run would decline as a result of deva-

(13) Direct subsidies can hardly be employed in our effort to capture the U.S. market. It would invite immediate retaliation. It might be worth investigating whether remission of taxation especially whether increases in depreciation allowances could not be granted in respect to exports to hard currency areas. The unexpected lag in establishing Development Councils which would have cooperated with Government agencies in overcoming sales resistance is much to be deplored. The finance of these expenditures by a general (and possibly graduated) levy on the whole output of the industries concerned could, moreover, have contributed in equalising the burden of selling in the U.S.

luation, then we should have to curtail further purchases from the dollar area. Thus unless we are content to cut income and employment, we should have to increase purchases elsewhere *i.e.* intensify the cause for the discrepancy between dollar and sterling prices as sterling prices will rise further. A vicious circle would be generated which would decrease the national income of England and other European countries unnecessarily while at the same time recreating the very same anomalies which we tried to overcome, until, if the « orthodox » solution were pursued far enough, « equilibrium » woud be insured by unemployment and the decline in the standard of life.

(ii) We must now consider the consequences of these price discrepancies on « third » markets. These markets can be divided into two categories.

There are, first of all, those which have at present dollar surpluses and, secondly, those which have no dollars or use all dollars they can obtain to purchase in the U.S. There are exceedingly few countries which are in the first favourable position; Malaya, because of rubber and tin, and West Africa because of cocoa, being the two important exceptions within the sterling area. Should the American slump worsen, obviously less countries will achieve this position, mainly because American imports from them will fall further. Moreover U.S. exporters will try to sell abroad even at prices which do not cover full costs, and thus attract dollars, now used multilaterally to cover imports from other non-dollar countries, who in their turn use the dollars to pay for U.S. exports. Thus the multilateral character of European trade which the U.S. will further diminish. The U.S. will not gain: instead of exporting primary products to Europe, she will export manufactures to tropical areas.

Nevertheless, as it would seem essential for Europe to try to obtain dollars by triangular trade, *e.g.* in South America, this argument must not be dismissed without due consideration.

(a) In the case of Malaya and West Africa the British Government can, by administrative measures, direct their demand for imports towards England. This would undoubtedly mean that they would lose, as they could make purchases at better terms in dollars. At a certain point the problem therefore would have to be resolved whether some compensation should not be granted in order to offset their loss, caused by the fact that they had to buy in the dearer sterling market. A devaluation of sterling would go some way in equalising supply prices. It would be most unfortunate, however, if non-dollar countries were to devalue on this account alone because of the consequent likely worsening of their *direct* balance with America.

At the moment the discrepancy between U.S. and other, especially U.K., prices is till within bounds. But in consequence of the U.S. slump it might become so wide as to render the maintenance of a prohibition of the use of « free » dollar balances in the U.S. by the surplus countries difficult to defend. Should there be any need for action to lessen the dollar-earning Colonies, indirect ways of compensation might be initiated, *e.g.* by giving these territories grants and thus enabling their decreasing indirect taxation falling on the poorer classes. There are, of course, a few other countries in the same position, in the case of which such complicated administrative arrangements are not possible. Only a few, like Israel, could be an important source of dollars. In these cases indirect measures might be employed in order to overcome the price difference. It was rumoured, for example, that Israel would be prepared to give Britain 60 cash for every £ 100 capital investment. Such schemes should be very carefully investigated. It is probable that there will be some falling off of exports and of employment. Unrequited exports which are combined with current transactions which bring in dollars and subsequently increase our invisible exports would represent an exceedingly profitable Public Works Programme.

In other cases outright subsidies will have to be considered to bring down the price of our exports (14), without worsening our terms of trade wich the U.S. It is sometimes argued that no further subsidies even for such vital purposes can be granted because taxation has reached its « limits ». This argument cannot

(14) Cf. however above on the disproportionately high prices of British exports, which should first be permitted to disappear.

be advanced by those who advocate devaluation. A devaluation means nothing more than a flat indirect tax on all imports and a flat subsidy on all exports. But, as we argued, it might not be wise to increase indirect taxation indiscriminately and equally on all imports; in the case of many exports moreover there is no need to grant an export subsidy which is automatically given by devaluation. A selective system of indirect taxation, plus subsidies, would therefore be less dangerous to the stabilisation policy than devaluation, and its incidence can be made juster. The only telling argument against this method is that it might be too difficult to administer. This argument has been used often before. In the majority of cases, after some time had been lost, events forced the adoption of the policy considered « impossible ». In view of the fact that only a small number of countries and a narrow range of commodities would fall into this category it would seem advisable to work out detailed programmes immediately.

It is unfortunately only too likely that our exports to the « dollar surplus » countries will suffer as a result of the decline in the American markets and the consequent decline in dollar prices and in the volume of U.S. purchases. Unless alternative (sterling) markets can be found in areas not affected by the U.S. slump, incomes and demand in these areas will decline. Thus both dollar earnings and British exports are likely to be affected. Far too little attention has as yet been paid to the problems of intra-sterling-area stabilisation (15).

(b) Secondly, there are countries which at the moment have no dollar « surplus ». These again can be divided into two categories: those who have no (considerable) dollar earnings at all and those who at present use what dollars they can obtain for purchases in the United States. Most of these countries would like to increase their purchases in the U.S. still further. They are prevented from doing so by their inability to obtain more dollars. Theoretically Britain (and Europe) could transform even the latter countries into « net dollar surplus » countries by displacing U.S. exports. And we might presume that those who wish this and other countries to devalue hope that such displacement could be effected.

The answer to this argument is that while it might theoretically be possible to displace American goods sufficiently to obtain dollars in this « triangular » fashion in practice it is not possible to do so in the short run as supplies now obtained in the United States are either not available elsewhere or if available are severely handicapped by market imperfections (taste etc.) in favour of the U.S. products. Nor is it evident that a competitive devaluation and deflation necessary to displace the U.S. by straight price competition will result in optimum real income in Europe.

It is a mistake to suppose that the U.S. depression will necessarily affect the volume of British (and European) exports to the non-dollar areas. There is no « manifest destiny » in the course of our trade. Provided we refuse to compete with American depression dumping and isolate ourselves, Europe might restrict the losses suffered by the U.S. slump to the consequences of the decline of American imports. These will in all possibility be serious (16). The overwhelming majority of the non-Communist world consists of countries which have no seizable dollar earnings or which spend such dollars they have on U.S. supplies. How much they buy in the U.S. is therefore determined by their dollar earnings. They cannot increase their purchases in the U.S. beyond that level however « cheap » American supplies may be. If they want to buy foreign goods (mainly manufactures) beyond the level permitted by their dollar earnings (even of the same general type as those which they buy from the U.S.) they can only buy these from countries to which they can sell and earn foreign exchange, *i.e.* Britain and Europe. Moreover it is more important for them to sell at relatively attractive prices than to snatch transitory profits by buying cheaply because they must be well aware of the fact that the inevitable and ultimate consequence of the transitory gain by « buying cheap » will be that their export prices will also be cut. That this is being realized is

(15) Cf. p. 16.

(16) It might be advisable to explore the possibility of instituting buffer pools in the European-sterling Area system to maintain the income of primary producers should a negotiation with the U.S. not result in joint action of all Western Powers.

shown by the successful conclusion of a 5-year agreement with Argentina which circumvents the dollar shortage (17).

It might be objected that they will refuse to buy the same goods « dearer » elsewhere than they can obtain them in the U.S. This objection is founded on a double fallacy. These countries cannot obtain all the goods they desire from the U.S. (over and above their dollar earnings) for they have no dollars. An attempt to extract dollars from their trading partners — as, for example, Belgium has attempted — would merely result in retaliatory decrease of their exports, for no country has « surplus » dollars. It is the dollar shortage which forces a decrease of U.S. exports and not the « wickedness » of « planners ». The *only* question which is open is whose purchases from the U.S. will be reduced. This question can be answered by planned distribution of available dollars (by those countries having relatively greater supply paying for some of their imports from their less favoured partners in dollars) or by an internecine struggle for dollars through competitive deflation and devaluation hoping to achieve extra-U.S. surpluses convertible into dollars (18). In the latter case they might try to snatch transitory gains by insisting on being paid in dollars in order to buy in the U.S. The consequence inevitably will be a further narrowing of trade. Thus gains obtained by buying « cheap » will fade as every country will find itself unable to export. Their own prices will begin to drop either because of an enforced deflation in Britain (and Europe) or because the value of their currency in terms of sterling (or other European currencies), has appreciated. The U.S. contagion will spread. On the other hand by concluding reciprocal purchase agreements and maintaining a tolerably stable price-level the consequences of the U.S. slump can be restricted to the losses suffered by not being able to sell to U.S. at better prices and in larger quantity. Even this will be inconvenient and might be extremely damaging; but the real catastrophe of a multiple shrinking of foreign trade could be avoided.

If we bear this in mind the clamour about « defending » « third » markets is difficult to understand (with the exception of those few in the first category which still have dollar surpluses).

The problem of the third countries is exactly analogous to our own. The import requirements from the U.S. at a tolerable standard of life are far higher than dollar earnings. In the short run the « free » play of price mechanism will not make available non-dollar supplies in sufficient quantity to take the place

EXPORTS AND IMPORTS OF MERCHANDISE OF THE U.S. TO SELECTED COUNTRIES

(January-December 1948)
in $ million

Countries	Exports of domestic merchandise (1)	General imports
Europe	4,242	1,091
United Kingdom	637	283
Middle East	357	169
India (2)	297	266
Pakistan (2)	17	26
Ceylon	19	53
Burma	5	2
British Malaya	82	270
Netherlands Indies	92	76
Australia	114	129
New Guinea (Australian)	—	1
New Zealand	34	30
British Western Pacific Islands (3)	1	—
Western British Africa:		
Gold Coast	6	74
Nigeria	10	31
British West Africa, n.e.s. (St. Helena and Dependencies, Gambia and Sierra Leone)	1	1

(1) Export figures for 1948 include Army Civilian Supply shipments; figures for 1947 do not. Dollar values for Civilian Supply shipments for the twelve months ending December 1947 were as follows: Germany, 456,925,163; Austria, 32,687,413; Italy, 9,108,005; Korea, 57,426,591; Japan, 354,380,255.

(2) India Pakistan combined as India and Dependencies in 1947.

(3) Formerly reported as New Hebrides and Brithis Oceania n.e.s.

(17) The reported protest of the U.S. against this agreement shows a regrettable lapse back to the Hull-Clayton theology. Nothing that Britain has done will diminish Argentinian purchases in the U.S. On the other hand no dollars are available to finance Argentinian purchases in the U.S. except by cutting British purchases. The Marshall Plan recognised that Britain would have to expand her sales to South America.

(18) The loss of gold by Britain of £. 12.2 million to Belgium, £. 5.6 million to Switzerland, and £. 4.7 million to Germany suggests that too little attention has been paid in the flush of recovery of 1948 to these questions.

(19) The uninterrupted increase of British imports indicates, however, that, as in 1946, the Government has relaxed controls too much. A repetition of the 1947 exchange crisis is a distinct possibility.

of goods now supplied by America. This is as much true of machinery and manufactures which South America needs, as it is of food and raw materials we need. If dollars *were* available, the change in taste towards American products, the superior capital resources enabling aggressive sales and the grant of credits, will attract sales to the United States. The drastic decrease in the standard of life needed to match U.S. competition without discrimination is politically so dangerous as to be ruled out. Nor could the nondollar world escape this dilemma by a general devaluation — because of the probable fall in dollar earnings and because of the consequent inevitable further aggravation of the U.S. slump.

There is not the slightest reason to doubt that even a partial convertibility of European currencies into dollars would now cause a wholesale restriction on European trade, especially if, as is unhappily probable, the American deflation continues, and an internecine struggle for dollars would be started. The inter-convertibility of currencies in Europe will follow as soon as a greater monetary unification has taken place in Europe. It is not possible so long as only Britain is engaged in keeping on an even keel, neither inflating nor deflating. Intra-European payments and trade should be encouraged. But this can be done most effectively by a tentative *relaxation of quantitative restrictions*. Even that would have to be accompanied by a much closer co-ordination of investment and general economic policies than has hitherto been the case. Dollar convertibility can be restored even partially after European reconstruction has succeeded in diminishing the inequality of opportunity between the two Continents, and the U.S. regained her equilibrium.

It is from this point of view that recent proposals in favour of « liberalising » intra-European trade must be judged (20). To these we now turn.

4. These considerations suggest that a devaluation of sterling and of other non-dollar currencies should not be contemplated as long as the extent of the U.S. slump is not calculable. A devaluation would aggravate the dollar shortage and might aggravate the slump and thus intensify the original problem. In the meantime the policy hitherto pursued by O.E.E.C. to strengthen the productive capacity of the non-dollars world should be intensified and steps taken to reinforce controls needed to isolate Europe from the consequences of the U.S. slump which would otherwise retard capital investment and thus slow down the increase in European productivity.

The essential task, as we have seen, is the prevention of a competitive struggle for dollars. In relation to non-American territories this could be achieved by reciprocal bulk purchase agreements. As most European (and British) imports are standardised this should present little difficulties. European (and British) exports are more difficult to deal with as they mainly consist of an infinite variety of manufactured products. This difficulty can most easily be overcome by securing agreements which leave the vendor of bulk purchase goods free to choose between the goods forming the exportable surplus of the bulk purchasing country. The vendor would, however, not be free to spend the money earned by the bulk purchase contracts anywhere else except with the permission of the purchaser.

The liberalisation of trade promised to the Americans should be undertaken by relaxing quantitative controls rather than by automatic transferability and steps should be taken to review drawing rights frequently and liberalise administrative transferability. Thus competition for dollars might be avoided and a shrinkage in trade prevented; final judgment must wait for the exact wording of the agreement to be published.

It is in our relations with the non-dollar

(20) The desire of the Bank of Egland to eliminate dealing at below par of sterling which cannot be freely used for the discharge of current obligations in Britain (*i.e.* payment for exports or services) seems once more to have overcome prudence. It is reported that in the new Swiss agreement up to £. 6 million has been sacrificed in gold by accepting claims on Britain by non-bona-fide residents in Switzerland. This particular mistake is an old one: it has been committed to a much more disastrous extent in the « phony » war period (cf. my papers on Foreign Trade and Exchange Policy, *Economic Journal* 1940, and on the Drift towards a Rational Foreign Exchange Policy, *Economics*, 1940 reprinted in *Essays on War Economics*, Oxford, 1940). It is a consequence of the age-old yearning after « re-asserting the position of London as an international center », which was so ruinous in 1925. The result is invariably and inevitably a collapse, followed by a far stricter application of the bilateral principle of exchange discrimination than would be economically desirable.

area, however, that British economic statesmanship will be tested. A split in the policy of these countries, the spread of the deflation among them, would narrow the area in which a satisfactory level of foreign trade can be maintained. Already Belgium and Germany suffer from unemployment of a severity not much better than 1929/32 and show an export surplus with all other areas of Europe and the sterling area. The wider the spread of the degree of enforced self-sufficiency: as exports shrink imports will have to be curtailed.

Britain will have to make active contributions if she wishes to regain leadership in a group of countries dedicated to full employment policy. Her standard of life is greater than that of any of the other countries. Thus any programme to counter the inevitable losses in dollar-markets (21) will have to give priority to a scheme of foreign investments (unrequited exports). This is the more desirable as it would to a considerable extent avoid the large-scale shifting of labour inevitable if the usual « public works » programmes were undertaken and which seem politically unmanageable. The offer of unrequited exports by the grant of Loans or permission to draw on « blocked » sterling balances could be combined with agreement which either promptly or eventually bring in foreign income or improve our supplies, *i.e.* our terms of trade. With the increase in steel production we should be able to do this without undue strain as most overseas areas would wish to increase their imports of capital goods. The investment programme in the Colonial Empire could be speeded up. Britain could also participate in the investment programme of Israel which, as mentioned above, would bring in some immediate dollars. We might come to some combined trade and payments agreement with India by which our selfbalancing trade with India would increase, provided we permitted them to draw additionally on their blocked balances *i.e.* their exports would increase while our exports expand by even more. Finally the Overseas Food Corporation might well consider extending its activities to Western, and possibly even Eastern, Europe by agricultural investment against favourable long-term reciprocal purchase agreements for part of the increase in production made possible by our investment. It is to be hoped that these possibilities are being explored and the trade negotiations with Eastern European countries intensified. But before any further steps are taken which would deflect the trend of the world economy from the hopeful cooperation with the United States in restoring the balance lost through the War a conference should be called to consider steps to arrest the consequences of the American slump on the European economics and envisage the expansion and widening of the scope of Marshall Aid.

(21) On the negative side, the sacrifice due to the fall in U.S. supplies should be equitably distributed. It will probably be necessary to re-introduce clothes rationing and a combination of tobacco and sweets rationing. The size of newspapers will have to be curtailed and, less likely, bread rationing re-introduced. It would be sensible to explain the potential need for these measures — as an alternative to mass-unemployment — at the earliest possible moment, so that the common sacrifice exacted should not lead to astonished exasperation.

Conclusions.

We might sum up:

1. The problem of the long run « viability » of Britain and Western Europe without direct U.S. Aid should not be confounded with the problem of the short-run consequences of the U.S. slump, though the latter inevitably raises similar problems as, and tends to aggravate the (slow) process of dealing with, the former.

2. The effects of the U.S. slump on direct British exports to northern North America (U.S. and Canada) of a slump in that area should not be considerable over-all: a decline of 20 per cent of our direct visible exports would only mean a shortfall of some $ 100 million. Much more awkward are the consequences of the slump on sterling area exports. The loss sustained might be of the order of $ 400-500 million or even more. The total loss for the world as a whole in dollar supplies might amount to 10 per cent of the total trade of the world which (excluding northern North America and the Soviet countries) amounted to $ 14,600 million in 1948.

3. Efforts to mitigate the slump in manufactured exports should be concentrated:

(i) on securing not so much a further cut in U.S. tariffs as a simplification and standardisation of Customs procedures which have more and more assumed a prohibitive character and neutralised the nominal concessions in tariff rates secured at Geneva;

(ii) on building up a State financed sales organisation in the new, expanding areas of the U.S. The establishment of Development Councils which could contribute to this task should be speeded up.

Much hope cannot be based on these effects (mainly because of the inevitable hostile reaction in the U.S.).

More important than these steps would be an expansion of U.S. buying of strategic raw materials to prevent the demoralisation of the extra-U.S. primary markets (the U.S. primary producers are protected by the system of parity prices) and the spreading of the U.S. slump.

4. As long as the U.S. slump continues unabated and the steps under (3) are not well under way there is no case of a devaluation of the non-dollar currencies. It would hardly ameliorate the dollar position, and might aggravate it because of the unfavourable conjuncture of factors determining the volume of exports and imports of the U.S. and Canada. Thus it is inappropriate quite apart from its internal (inflationary) consequences.

5. In order to enforce exports despite the worsening of relative export prices without general deflation and to distribute the diminished supplies from the dollar area justly, certain controls will have to be reintroduced, others strengthened.

6. The existing higher profit margins in exports provide some shock-absorber for British and European exporters. But in the main our hopes of maintaining income and employment will depend on our success:

(i) in preventing an internecine struggle between non-dollar countries for dollars, in the main by reciprocal bulk purchase agreements;

(ii) in further import substitution.

7. It is to be hoped that other non-dollar countries will follow our policy of not indulging in competitive depreciation or deflation. Otherwise international trade would have to be restricted still further. As dollars will become scarcer U.S. competition will become *less* effective, provided we can avoid dollar convertibility in extra-American trade. The Argentine agreement and the proposal of O.E.E.C. to liberalise intra-European trade are moves in the right direction.

8. In respect to exports of some commodities to certain countries some compensation will have to be given for their willingness to forego U.S. depression-dumped goods. This compensation should be indirect so as not to conflict international agreements to which unfortunately we are already committed.

9. Once the U.S. deflation has been arrested by cooperative action and the long-run tendencies and policies can be gauged, a devaluation of the non-dollar currencies should be envisaged. Provided U.S. demand re-expands sufficiently, devaluation would help in bringing about realignement of non-dollar — dollar prices due to the superior U.S. rate of technical progress (22). It is to be hoped that a continuation and intensification of the policy outlined in the conception of the Marshall Plan and in President Truman's « Fourth Point » will permit the resumption of general world recovery. We should aim at restoring multilateral *payments*, and, after the reconstruction of the European-British Commonwealth economic system has been carried out, also of multilateral *trade*. This depends (as we have pointed out in an earlier paper (23):

(22) In the absence of more reasonable domestic economic policy coupled with a liberalisation of customs procedures, etc., in the U.S. a sharp increase of the price of gold would give (rather wasteful and silly) relief. The increase of the price of gold to, say, $ 100 per fine ounce would represent an addition to the worlds dollar supply of well over 1.5 billion per annum as a result of the consequent increase in gold production. The fear of the more uninstructed members of Congress of deficit spending would also be eliminated. The « profit » on gold revaluation of some $ 50 billion (at $ 100 an ounce) should go some way in helping to maintain business activity. Admittedly this is a frightfully wasteful way of curing the monetary disequilibrium. But it is better than the present absence of policy which has already cost the U.S. in loss of national income more than the cost of Marshall Aid already incurred, and bids fair to cost them more, within a year or so, than the total cost of the whole European Aid Programme. Such is the curse of Midas.

(23) Britain, O.E.E.C. and the Restoration of a World Economy, Bulletin of the Oxford University Institute of Sta-

(i) on the success and determination of U.S. domestic economic policy in maintaining an excess demand in the U.S. as is indicated by the « rules of the game » for a gold-gaining country;

(ii) on the degree of unilateral concessions in commercial policy by the U.S.;

(iii) on the volume of U.S. grants or lending to (non-European) outside areas during and after the Marshall Aid;

(iv) on the success of British policy in providing leadership in reorganising the European-Commonvealth productive structure. Should the U.S. continue to be plagued by business fluctuations, give no commercial concessions, or diminish or discontinue the supply of dollars, and breach the organisation of a viable economic unit in Western Europe by insisting on convertibility and non-discrimination, the inevitable logic of events will push Britain and Western Europe to a much greater degree of national autarky combined with bilateral deals and closer economic relations with the Soviet bloc. It is to be hoped that an early Conference will be called to avoid a disorganisation among the Western world by co-operative action.

tistics, February-March 1949, esp. pp. 47-52. These conclusions have been strikingly reaffirmed by the Economic Survey of Europe in 1948, *op. cit.*, esp. pp. 216-19.

The Dilemma of the O.E.E.C.

by

GIUSEPPE UGO PAPI

I - *The dilemma of the post-war period.*

In this post-war period all countries, and above all those of Europe, find themselves faced by the following dilemma: they must either return to a policy of economic self-sufficiency, reducing their imports from the dollar area and producing for themselves such staples as cereals, meat, and fats, or they must continue importing on a large scale from the dollar area and intensify their trade with other countries. This is not — as some may be inclined to think — a theoretical debate. The problem involved will come up for discussion during the new stage of the work of the O.E.E.C.

A study of the plan for 1949-50 and of the long-term plan extending to 1952-53 presented by the 19 participating countries to the Paris meeting of the O.E.E.C. confirms the presence of this alternative, for it leades us to note the following fundamental facts: (1) that in 1952 the whole productive effort of the participating countries will not suffice to raise the food level of the European countries represented above that of the pre-war period; (2) that neither will the expected growth of trade between the participating countries suffice to rebalance their several economies. What then is the path each country should follow to secure once more a lasting economic balance?

II - *The self-sufficiency hypothesis.*

Should a self-sufficiency policy be adopted, it might perhaps be possible to economise some hundreds of millions of dollars on imports from the dollar area during the E.R.P. period; but then countries like Italy would have to meet the situation arising from the production of larger quantities of certain staples at ever growing costs; to introduct high protective duties or other forms of protection against the competition of the low cost countries; to shift the balance now attained in plans for public works — as for instance in agriculture — and to favor land-reclamation rather than well-considered irrigation works. Such countries would also be forced to follow a more active policy for assuring growers of the leading staples remunerative prices on the home market; in some case, more especially for wheat and sugar, these prices would have to be considerably above those ruling in transoceanic countries. But this — experience acquired in the period between the two wars shows it — would not bring about the rebalancing of the economies of the several countries. The recovery of that balance can only be secured — need we repeat it? — by the active operations of the mechanism of imports and exports. Should that mechanism fail to operate, should it not operate from now till 1952, the economic structure of each country, whether participating or not in the benefits conferred by the E.R.P., instead of remaining at the level attained will suffer an involution.

III - *The larger trade hypothesis.*

Under the second hypothesis which foresees a steady growth of the trade of each country with all the others, both European and non-European, the prospective situation would be different.

Italy would still need remunerative prices and moderate protection for some agricultural staples, on lines in keeping with those of a

moderate protection for industry. In both cases the protective tariffs should be moderate as it would be impossible to have high industrial protection for some essential farm requisites without leading to harmful reactions on the cost and also on the price of farm products. But Italy would enjoy opportunities for the expansion of production to an extent that would far exceed the purchasing power of her home market; she would have the prospect of a balance to be secured between several groups of needs and of goods available on the domestic or international markets. Now, it is only if one or other of these policies be selected to guide the relations between countries that it will be possible to examine in an adequate manner the practical problems affecting production and exchange in each country, and therefore also in ours.

IV - *Contingent situations cannot arrest this direction. Supposed incompatibility between inter-government agreements and bilateral agreements.*

It would be neither easy nor advisable to review here the opportunities for finding an outlet for each product produced in Italy. The agreements to be discussed at Annecy will afford ample opportunities for government officials and experts to handle this matter. But in securing larger outlets on foreign markets we should not be detained by uncertainties arising from purely contingent situations, attributable to the confusion caused by the contrast between the immediate interests of certain parties and the inexorable logic of facts; in other words, by human behaviour.

One uncertainty felt is, for instance, whether it is more advisable to participate in inter-government agreements for key-products, or to favour bilateral agreements in conformity with the policy recently advocated at the O.E.E.C. But there does not really seem to be any fundamental incompatibility between the two policies. Let us suppose that it be advisable for our country to participate in international agreements for goods to be *imported* at lower prices than those which in the absence of such agreement would have to be paid, and of which the supply would thus be assured without need of the wearisome negotiations necessary in the case of bilateral agreements. The premium paid for this assurance would be the difference between the agreed price paid by the importer and the lower one that might possibly rule on the international market.

Let us take the case of wheat, for which the last of a long series of conferences has finally reached a definite decision. In Italy, as properly prepared lands will be sown with selected seed at longer intervals interrupted by the cultivation of intermediate crops, thus securing higher per unit yields, it will be possible gradually to limit the area under wheat to the lands best suited to it. Recourse will be had to imports — if possible in a declining measure — to cover deficit in wheat needed for food, seed, or other purposes.

But at the same time a certain quota of wheat might be left out of the agreements which Italy, for instance, might wish to import from countries not yet members of the inter-government agreements, and with which, under bilateral agreements, we should be able to offset our imports by exports of such products as hemp, wine, textiles, etc. This is now the case with some of the East European countries from whom we expect to import wheat in return for exports of the products just mentioned. Each country would decide on the quota of imports to remain outside the agreements.

Gradually, as the inter-government agreements for a given product — for instance, wheat — are extended to an ever growing number of countries, part of the bilateral agreements relating thereto will be restricted to an ever smaller number of countries, and will disappear altogether should *all* countries participate in the inter-government agreements for *all* products. But this day is still far off, and in the meantime each country could participate in a balanced measure in plurilateral agreements and in bilateral ones, distributing their imports between certain minimum quantities they desire to be sure of, and others used for securing markets for exports which would thus be paid for by counter imports.

V - *Have we really exported too much?*

Another perplexing question arises from a fact clearly shown at the meeting of the O. E. E. C. Some of the countries poorly provided with natural resources, such as Italy, have exported to countries more richly endowed, such as England, Belgium, and France. Yet Italy cannot use the proceeds of her exports to make the imports she requires. And as the currencies of the several countries — those to whom Italy has exported and all the others — are not convertible at the rates of exchange fixed by their respective monetary laws, the Italian Foreign Exchange Institute to enable the exporting industries to continue operating, purchased the foreign currencies — pounds sterling, French francs, Belgian francs — paying for them with lire supplied by the printing press, and is holding these currencies, which meantime remain inactive — temporarily at least — because they cannot be used to pay for imports.

Substantially, this means that the Bank of Italy, through the Foreign Exchange Institute, makes a loan to exporters and enlarges the volume of the currency in circulation. This operation would not, however, be in itself harmful, if the transaction were really a grant of credit; *i. e.* if, in the course of time, goods were imported from the countries to which exports have been made and if therefore foreign exchange were sold to Italian importers against lire, which would thus return to the Bank. Such a transaction would be no more harmful than the discounting of bills by the Bank of Italy through the issue of notes which, on payment of the bills, return to the bank. It is rendered harmful only by the fact that the credit granted by the Foreign Exchange Institute to the exporter is not returned because the imports Italy desires cannot be had. Consequently the lire issued when the foreign exchange was purchased, remain in circulation.

We hear it said: « We must be careful not only about exporting but even about drawing up plans for the production of exportable goods. We have gone too far: now it is time to put on the breaks ». We hear it said: « Why not admit it? The first step that should be taken to assure succesful international relations would be to revive the convertibility of the several currencies ».

The first assertion goes too far. A country can rebalance its economy — as we have already said — only through the active operation of the mechanism of imports and exports. We are told that the plurilateral agreement signed last autumn in Paris is not working. But there is nothing surprising in this, for experience had already shown that even the plurilateral agreement of November 1947, pivoted on the Bank of International Payments, did not operate. After all, a plurilateral agreement is nothing but the grant of a credit, which, as such, must in due time be returned. But a credit is no longer one if the amounts due to the exporting country become a frozen asset, compelling it to have recourse to inflation to carry on its work.

How then can the skein be disentangled? Only by the active will of *all* the countries to collaborate. All the debtor countries (in the case of Italy, for instance, Great Britain and France) should realise that they must *first* pay their debts, at least in part; and only then export to the hard currency countries to earn dollars, or perhaps use in their home activities the goods that Italy might import from them. It seems absurd — I am convinced of it — but there is no other way out. Little by little a 100 % selfish outlook will have to give way to a cooperative point of view; to cooperation with others as a means of securing selfish ends of a more limited but permanent character. Otherwise the confusion will continue and then no economic structure — and still less that of countries which, like France and Great Britain, will not allow others who have exported to import — will be able to recover its economic balance.

It should however be noted that the import-export machinery ought to be able to work not only in a group of countries like those participating in the O.E.E.C., not only over a continent like Europe, but in all countries and in all continents, for the lasting recovery of an individual country is not possible if a start at least is not made with the durable recovery of all the others. This is a law of international

solidarity that holds good for all and which the severe lessons taught by history have never made more apparent than now.

VI - *What is required for the revival of currency convertibility?*

The second assertion that the clue to recovery could be found in the convertibility of the currencies, as some of our American friends are the first to assert, is also mistaken. Why are not currencies — why for instance, are not the pound sterling and the dollar — exchangeable one with the other? Or, to say it in other words, why must one give more of each pound sterling for each dollar than their metallic parities require? Because dollars are scarce. And why are they scarce? Because England, like all other countries, cannot freely export to the United States and procure herself the dollars that would make it possible to convert the pound sterling at the fixed parity.

The reason for the inconvertibility of the currencies is therefore to be sought in the obstacles the United States, and consequently so many other countries, place in the way of receiving from Europe, for instance, goods in payment of U.S. exports. But this being so, criticism of present ills should be levelled not against the superficial causes (the ratios between the currencies) but against the root cause (the obstacles still placed in the way of exchanges between the countries), and remedies should be found for them. Therefore, if the good will of all the countries were to succeed in reducing the obstacles in the way of trade, the convertibility of the currencies would automatically revive. But if this is not done, it will be vain to expect their convertibility, and still vainer to claim that the convertibility of the currencies would open the way for wider trade. The terms of the problem cannot be inverted.

For the time being we have, on the one hand, at the O.E.E.C., debtors — like France and Great Britain — who refuse to pay for the exports received from Italy by sending her the goods she desires; on the other hand we have creditors like the United States and other countries who refuse to allow their debtors to pay them in goods. Unfortunately, as long as these resistences exist, not only will the convertibility of the currencies remain a mere wish, but no country will be able to draw up a plan of production and trade for the purpose of assuring itself a balanced economy as a preliminary to a period of social peace and stability.

VII - *Opportunities for emigration.*

The difficulties placed in the way of the transfer of men from one country to another are no less serious. It is true that excessive hopes should not be placed on emigration as a means for solving Italy's problem of unemployment. Nevertheless, emigration is a phenomenon grafted on the reality of the unequal distribution of the factors of production as between the several countries, the incomplete development of vast territories, the grievous insufficiency of consumption goods. This makes it urgent to correct the uneven distribution of productive factors, above all by the movement of capital which enables existing labour to be used on the spot; and next by moving large bodies of workers. When all the best conceived efforts for providing wider opportunities for steady employment have been reviewed, we find that emigration though painful offers the only means of escape for residual unemployment.

A study of migratory movements of workers might show the best means for promoting the *practical cooperation* of all the countries anyhow concerned in emigration. Such a study could review the possible outlets offered by the still sparsely inhabited countries or continents to over-populated countries. In the case of Italy we think of Latin America and to a very small extent of Africa and Australia. Light could be thrown on the innumerable *aspects* of this complex activity which is generally marked by great suffering and is always a delicate matter. Many of these aspects have already been carefully examined by individual students, national and international research organisations, congresses and conferences, while the Governments of the countries concerned have enacted many measures which have proved more or less efficacious in solving the many concrete problems that arise. Contacts with the immigration countries should be

arranged with a view to organising groups of emigrants to form the first land-settlement nuclei, which will serve later on as centres of attraction for individual emigrants.

VIII - *Direction and planning of international trade.*

The dilemma we stated at the beginning of this paper need not remain one if common sense should prevail. Nevertheless, the intensification of trade — this decisive form of international cooperation — will still depend largely on the position taken by the United States. They are supplying the E.R.P. help to Europe and they are entitled to ask that the European countries should specialise in the production of quality goods suited for export, of a kind which do not compete with those of other countries. Our country has qualities of inventive ability and craftsmanship that can enable it to comply fully with these desiderata.

But at the same time the United States could supply credits to countries whose natural resources have still to be developed — Latin America and some parts of Africa — thus helping to raise their real income and to acquire a purchasing power which will assure the absorption of the exports of other countries: if it be true that the limit to the expansion of international trade is marked (in a given period and between several countries) by the purchasing power, and therefore the export possibilities, of the relatively poorer countries, and if this purchasing power tends to increase with the development of the still backward areas. The fact is that today many countries have large export possibilities, but the obstacles placed in the way of international exchanges prevent them from availing themselves of these possibilities; so that, in spite of the many opportunities that exist for enlarging the productive activities of some countries to the advantage of all, international trade continues to be limited in volume to the injury of all.

Were there to be a gradual removal of trade barriers and were the United States at the same time to accept the idea of promoting by other loans the growth of the real income — agricultural and industrial — of still backward areas, not only would this promote, at least indirectly, the prudent emigration of European and more especially Italian workers needed for the development of those territories, but it would also raise their power of importing the quality products of European industries. Thus, through the growth of trade on prearranged lines, it would be possible to carry out the economic plans not of one country or group of countries only — that would be inconceivable — but of whole continents. And this — as has been repeatedly said - is the preliminary condition for rebalancing the economy of the individual countries. Let us open our windows on the world and let in air and the needed stimulus to work at home. Such is the advice that nearly forty years of painful experience give us.

The Valuation of Commodities for Direct Consumption

by

CORRADO GINI

The valuation of commodities consumed by the producers themselves offers some difficulties that puzzle statisticians in periods when prices on the free market differ widely from the legal prices.

Some would value these commodities at their legal price, others at the free market price, and others again would accept a weighted average between these two. But in making this weighting is difficult to find a criterion which would not be arbitrary.

In my opinion the solution should be sought in a quite different direction. It is extremely simple. It may seem to be the egg of Columbus.

Commodities consumed by the producers themselves are generally fungible commodities of a fixed type, whose quality does not vary appreciably from one period to another, so that their valuation may be made to depend exclusively on their quantity and on the purchasing power of the currency.

Let the current price of the product consumed by the producer himself be known for a period taken as a base in which the legal price did not differ from the market price, and let the quantities consumed be also known both in the base period and in the period for which the valuation is to be made. The variation in the quantity can then be ascertained directly. As concerns the variation in the purchasing power of the currency, it must evidently be deduced not from the legal price, nor from the free market price of the special product under consideration, but from the index number for the general price level. It is of course presumed that this index number has been determined in a suitable manner, attributing to the several commodities the weight corresponding to the quantity exchanged or to the quantity — gross or net — produced or to the existing quantity, the choice of one or other depending on whether the valuation is to be used for calculating the amount of exchanges, or of production, or of incomes, or of wealth.

The soundness of this mode of procedure may be tested in the following manner. Let us suppose that the volume of all commodities has remained steady from the base period to the period under consideration. The variation of the value of the commodities exchanged, produced or existing will correspond in this case to the variation in the index of the general price level. But this index-number can only be determined by taking into consideration the commodities that are not consumed directly by the producers themselves. Now, to apply to all commodities the index number of the general price level which has been established for commodities not the objects of direct consumption, amounts to the same thing as attributing to the commodities which are the objects of direct consumption the same price variations that are deduced from the index for the general price level.

Let us now see another proof. The general price index number must be such that if we multiply by it all the prices of the base period, we shall obtain for the period considered, the same total amount as is obtained by assigning to the several commodities their own prices. Now this equivalence occurs when, and only when, a price is assigned to commodities consumed directly by the producers which is increased over the price of the base period in the same ratio shown by the index number for the general price level.

It should be noted that this mode of procedure is not always equivalent to taking an average between the legal price and the free market price. Thus, for instance, in Italy the price

index number in 1947-48 (100 = 1938 prices) was 5,159 for the general level of wholesale prices, while in the case of wheat it stood at 3,259, in that of maize at 4,023, for barley at 3,421, for rye at 3,549, if we consider the legal prices, but at 8,872, 8,319, 4,860 and 8,733 respectively if we consider the prices on the free market. Therefore the index number for the general level of wholesale prices stood between the index numbers for legal prices and free market prices in the case of wheat, maize, and rye, but not in the case of barley, for which it was higher than either.

Let us see how it is possible in practice, following the method described, to estimate the value of the quantities of the aforesaid commodities produced in Italy in 1947 and consumed by the producers themselves.

The quantities consumed directly by the producers are given in column 2 of the following table (Table I). The data in that column have been kindly supplied me by the Central Institute of Statistics. They are approximate and therefore susceptible of corrections but this is of no importance for the purposes of this calculation which is merely illustrative. In column 3 are stated the prices per quintal in 1938, columns 5 and 6 contain the index numbers of the legal prices and of the free market prices for the four products in 1947-48 taking 100 as the price, already stated in column 3, for the respective product in 1938, while column 4 shows the index numbers for the general level of wholesale prices also taking 100 as the general price level in 1938. Lastly, in colums 7, 8 and 9 are shown the estimated value in millions of lire for the several products, and for their total, calculated on the basis of the quantities stated in column 2 at the prices of the base year given in column 3, and of the index numbers given in columns 4, 5 and 6. Thus, for instance, to obtain the estimated value of wheat consumed by the producers themselves in 1947-48 at the legal prices we shall multiply the quantity consumed as stated in column 2 (22,000) by the price stated in column 3 (131) by the index number given in column 5 (3,259). We shall obtain the result $22{,}000 \times 131 \times 3{,}259 = 9{,}392{,}438{,}000$, which divided by 100 (the base of the index number in 1938) and multiplied for 1,000 (the unit in which the quantities consumed are expressed) will give us the value sought for in Lire 93,924,380,000. This is found, expressed in millions of lire, in the first line of column 8.

Another method to which one can have recourse is that of valuing the quantities consumed by the producer at an average price between the legal and the free market price. The criterion by which the average is to be determined has then to be decided on.

Among the criteria which may be considered there is that of assigning to the index number of the legal prices and to the index number of the free market prices a weight proportionate to the quantities delivered to the pools and respectively to the quantities sold on the free market. It is difficult to justify this method on theoretical grounds, but it deserves to be taken into consideration in as much as it is based on an objective criterion.

Table II shows in column 2 the quantities delivered to the pool; in column 3 the quantities received on the free market; in column 4

TABLE I

Product	Quantity consumed by producers themselves 1947-48 1,000 qls.	Price per ql. in 1938	Index number in 1947-48 (1938 = 100) of			Estimated value in millions of lire of quantities consumed by producers themselves in 1947-48 according to base price of 1938 and the index number of		
			wholesale price level	legal prices	free market prices	wholesale price level	legal prices	free market prices
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Wheat	22,000	131	5,159	3,259	8,872	148,682	93,924	255,691
Maize	8,322	87	5,159	4,023	8,319	37,352	29,127	60,202
Barley	900	98	5,159	3,421	4,860	4,550	3,017	4,287
Rye	573	113	5,159	3,549	8,733	3,340	2,295	5,635
Total	—	—	5,159	—	—	193,924	128,363	325,835

the weighted average, based on these quantities, of the respective index numbers of the prices already given in the previous table (Table I, columns 5 and 6) and lastly, in column 5, the values obtained by multiplying the average index numbers thus obtained by the prices of the base period (Table I, column 3), and for the quantities consumed by the producers themselves (Table I, column 2).

obtained on the basis of the legal prices (128 milliards, see Table I, column 8) and is inferior by 132 milliards to that obtained on the basis of the free market prices (326 milliards, see Table I, column 9).

Calculating the weighted average of the two index numbers for the several products on the basis of their respective quantities, we obtain results (Table II, column 5) for them that differ

TABLE II

Product	Quantity delivered to the pool, 1947-1948 (1,000 qls)	Quantity on free market 1947-48 (1000 qls)	Av. of index numbers of legal prices and free market prices weighted on basis of quantity (2) and (3)	Estimated value in millions of lire of quantities consumed by producers themselves in 1947-48 according to the base price in 1938 and index number (4)
(1)	(2)	(3)	(4)	(5)
Wheat	11,112	5,673	5,156	148,595
Maize	1,767	8,174	5,911	42,796
Barley	249	223	4,101	3,617
Rye	125	37	4,733	3,064
Total	—	—	—	198,07

The method we suggest, while in the case of the several products it does not always give results intermediary to those obtained on the basis of the legal prices and the free market prices, does however give for the four products considered as a whole a result (194 milliards, see Table I, column 7) which is intermediary, as it exceeds by 66 milliards the result

sometimes considerably from the results obtained by the method we have described, but which, taken as a whole, are pretty much the same, as they give a total of 198 milliards instead of 194. Very probably however this is only a chance coincidence which might not occur again for other countries or for Italy herself in other years.

Balance-Sheet of the First Year of the ERP in Italy

by

GIANDOMENICO COSMO

We feel that two considerations of a general nature should precede any attempt to draw up a balance-sheet of the first year's results of the European Recovery Program.

First, it must be acknowledged that ERP played a fundamental part in assisting Italian economy; without it, supplies of foodstuffs and raw materials would have fallen so low as to imperil the recovery of production and market supplies, and consequently to compromise also the struggle against inflation and unemployment (1).

Secondly, we cannot sufficiently stress the fact that, despite its undeniable importance, the exceptional assistance now being granted is not sufficient to offset the lack of balance in the structure of Italian economy caused by surplus population. This surplus population, which takes the form of a large mass of unemployed that cannot be reabsorbed by the productive cycle, seriously hampers all efforts aiming at recovery. Unfortunately this is often forgotten by even the most sympathetic foreign observers, who are inclined to be over hasty in the opinions they express regarding Italy's economic situation, the structure and features of which are quite different from those of the other countries of Western Europe participating in ERP.

1 - *The achievements of the European Recovery Program in the main participating Countries and Italy's position.*

The results of the first ERP year in Italy must be considered jointly with the general results obtained in the participating countries. Table I gives figures for the main participating countries regarding ECA allocations, procurement authorizations (P. A.) issued and shipments made and paid for by ECA up to March 31, 1949.

TABLE I

SITUATION AS OF MARCH 31, 1949
(figures in millions of $)

	Allocations	P. A.'s issued	Shipments made and paid for
Total	4,953 (a)	4,770	3,047
to:			
United Kingdom . .	1,316	1,259.8	1,008.4
France	1,061.6	1,072.8	709
Italy	585.9	578.6	319.7
Netherlands	473.9	468.3	230
Germany (Bizone) . .	412.6	373.8	211.3
Austria	228.7	230.1	165.9
Belgium-Luxemburg .	206.7	199.6	109.6

(a) Figures taken from ECA's « Tenth Report for the Public Advisory Board » published in Washington, D.C., on April 20, 1949. See page 8 of the Report, where it will be seen that out of a total of 5,013.5 million dollars (of which one billion for loans) appropriated by the U.S. Congress to ECA up till March 31, 1949, 4,953 million dollars were allocated to Participating Countries, 3.478 millions of which were for direct grants, 503 millions for conditional help and 972 millions for loans.

The figures contained in Table I enable us to make in Table II percentage comparisons between allocations and P.A.'s issued, between P.A.'s issued and shipments, and between allocations and shipments paid by ECA headquarters through March 31, 1949.

The comparisons appearing in columns *b* and *c* show that in the principal countries (Great Britain and France) the rate of absorption of the ERP was swifter than in Italy. The delayed development of the Program in Italy was caused partly by organisational difficulties during the first quarter year of its implementation and partly by the uncertain trend of the

(1) To give some examples: without ERP, wheat imports in 1948 would have been 30 % lower than in 1947; for fuel-oil and coal — which are not produced in Italy — imports would have been 35 % lower; whereas imports of some fundamental raw materials, such as copper, would have been 50 % lower.

Italian market during the first three quarters of 1948 (deflationary readjustment), which curbed imports by private firms and collective monopolist purchasing organisations, particularly for coal.

TABLE II

PERCENTAGE COMPARISON OF ERP SERVICES

	Ratio between allocations and P. A.'s issued *a*	Ratio between P.A.'s issued and shipments paid *b*	Ratio between allocations and shipments paid *c*
Total	96.30	63.88	61.52
United Kingdom	95.73	80.04	76.63
France	101.05	66.08	66.78
Italy	98.75	55 25	54 56
Netherlands	98.82	49.11	48.53
Germany (Bizone)	90.60	56.52	51.21
Austria	100.61	72.10	72.54
Belgium-Luxemburg	96.56	54.90	53.02

According to the latest figures known, however, the curve of goods arriving through ERP appears to be following an upward trend. This allows us to hope that the delay complained of will be gradually made up (2).

For the first year of ERP (3) United States help to Italy consisted of the allocation of a sum of 585.9 million dollars, mainly composed of *grants,* that is to say help granted free of charge. A smaller part — about ten per cent of the total — consisted of *loans*. This figure also includes the sum allocated to Italy as *conditional help* in compliance with the Inter-European Payments and Trade Agreement signed in Paris on October 16, 1948 (4).

The importance of ERP help to Italy is clearly shown by these two percentage ratios. It accounts for almost 43 % of Italy's total imports and represents no less than 88 % of supplies from the dollar area. This proves that the aggregate help tends to cover the deficit in our balance of payments, thus allowing for a slow but progressive improvement in the standard of living of the Italian people and in the level of both agricultural and industrial production.

In other words, we may now say, at the end of one year, that ERP help shows the following characteristics:

(1) it supplies Italy with foreign currency, enabling her to settle her accounts with foreign countries, which usually show a deficit owing to the country's lack of hard currencies and, particularly, of dollars;

(2) economically, it makes it easier to get hold of goods in short supply or goods that were difficult to obtain until a few months ago — cereals and copper, for instance — guaranteeing supplies of these goods without Italy having to supply anything in return;

(3) financially, it makes it possible amply to integrate national savings, which also are far below the country's requirements. In fact, both the utilization of the Lira Counterpart Fund, which is formed by the sale on the home market of goods supplied free of charge, and the dollar loans to be used for renewing productive equipment, appreciably increase supplies of capital on the national market.

2. - *Progressive implementation of the program.*

The P.A.'s issued by ECA in favour of Italy until March 31, 1949 amounted to 578.6 million dollars, equivalent to 98.7 % of the allocations. They accounted for about 12 per cent of the total amount of P.A.'s issued by ECA at that date, which is very much the same percentage as that of help to Italy for 1948-49 compared with the aggregate help to all participating European countries.

As a result of the principle of obtaining essential supplies of raw materials and foodstuffs through ECA on which the Italian program is based, applications are mainly for bulk goods: cereals, coal, petroleum products and cotton account for over 65 % of the P.A.'s granted (Table III).

During the first quarter of 1949 the weight of cereals increased in the P.A.'s issued, while there was a drop in P.A.'s for coal, following

(2) On April 30, 1949, the P.A.'s granted amounted in fact to 611.3 million dollars, while the value of the goods that had arrived in Italy was approximately 390-400 million dollars.

(3) The figure of 585.9 million dollars is supplied by the previously mentioned « Report » and replaces the original figure of 601 million dollars which is generally given.

(4) According to the terminology adopted, « conditional help » means that part of ERP help which is allocated as compensation for Italy's credit balances in bilateral trade with other participating countries.

TABLE III

GOODS FOR WHICH P.A.'s WERE ISSUED
(position as of March 31, 1949)

Goods	millions of $	% of total
Cereals	158.1	27.5
Freights	80.2	14.0
Machinery	79.5	13.8
Cotton	62.6	10.9
Coal	59.3	10.3
Petroleum products	41.8	7.2
Iron, steel and their products	14.1	2.5
Copper	13.9	2.4
Oil, fats and oleag. seeds	11.0	2.0
Miscellaneous	53.9	9.4
	574.4 (a)	100.0

(a) The figure of 574.4 supplied by the « Relazione sul 3° trimestre ERP in Italia », page 87, Rome, April 1949, is slightly lower than that of 578.6 supplied by ECA's « Tenth Report », p. 14.

TABLE IV

VALUE OF COMMODITIES REACHING ITALY UP TO MARCH 31, 1949

Commodities	C. i. .f value (millions of $)	% of total
Cereals	140.0	41.7
Coal	66.9 (a)	22.9
Cotton	50.9	15.2
Petroleum products	40.3	12.0
Copper	6.0	1.8
Iron and steel products	3.4	1.0
Miscellaneous foodstuffs	3.2	0.9
Medicines	2.7	0.8
Leather and hides	2.5	0.7
Oil seeds	2.5	0.7
Miscellaneous products	17.4	2.3
Total	335.8	100.0

(a) This figure includes the coal coming from the Ruhr, which is f.o.b., amounting to 16.4 million dollars.

on increased supplies from European sources, and for mineral oils.

Owing to the unavoidable lapse of time between the granting of P.A.'s by ECA and the arrival of goods in Italy, the total value of the goods that had reached Italy by March 31 is reckoned to be 335.8 million dollars, equal to 72 % of the P.A.'s issued for the first twelve months (Table IV).

The weight of goods that had reached Italy by March 31 was 7,205,405 tons. A few main items account for 96 % of this weight; this too proves that bulk goods prevailed and it is for this reason that a large quota (14 % of the total) of the ECA allocations are absorbed by freights (5). (Table V) Very little machinery and equipment had arrived up to March 31: only 1.1 millions worth.

If Italy's total imports during the 12 months under consideration are compared with the ERP goods delivered, it will be seen that the latter account for 40.5 per cent in volume and 22.4 percent in value of the total; for cereals the percentage is approximately 60 per cent of the volume, for coal 50.30 per cent and for crude oil 66.8 per cent.

These percentages, like the figures given above, prove the truth of the assertion that during its first year in Italy, ERP has played more the role of a welfare organisation (helping to meet the current requirements of Italy's economic life) than the reconstructive role for which it had originally been cast. This presumably depended partly on the fact that it was more necessary for Italy than for the other countries to reestablish as best she could, through ERP, the equilibrium of her balance of payments,

ARRIVAL OF MAIN ERP COMMODITIES DURING THE FIRST ERP YEAR · TABLE V
(April 1948 to March 31, 1949 - in m. tons)

Quarter	Cereals	Coal	Petroleum products	Cotton	Iron & steel products	Copper
April-June '48	36,274	463,790	207,984	191	—	—
July-Sept. '48	178,798	1,672,892	553,978	2,527	6,956	2,488
Oct.-Dec. '48	376,190	1,050,273	536,507	32,446	3,050	4,540
Jan.-March '49	626,201	1,013,239	295,423	42,244	36,040	4,646
	1,217,463	4,200,194	1,598,892	77,408	46,046	11,674

(5) Altogether, at the end of March, 719 fully laden ships and 392 partially laden ones had arrived, while a further 37 were on their way carrying a total of 338,885 m. tons. By May 15, 8.5 million m. tons of goods to a value of 420 million dollars had arrived in Italy.

which latter should, however, be accompanied by a level of productivity capable of ensuring economic and social stability.

Consequently since ERP help is only transitory, it is of outstanding importance to see that a sufficiently flexible assistance program is drawn up, avoiding any excess of unsuitable products as well as any lack of products required in order to reach the above-mentioned target.

The ECA loans for the renewal of equipment (67 million dollars) should be used to this end. These loans actually entered the final phase of allotment during the first quarter of 1949. The truth is that the Italian market proved unable to absorb the quotas of machinery and equipment allocated in compliance with the *grants*. This was due to the lack of capital that is characteristic of the Italian money market, which takes the form of extremely high rates of interest, thus dissuading producers from having recourse to loans other than the ECA *loans* for which the rate of interest is more advantageous (5.25 %). For this reason the Italian Government is taking steps to grant special loans on the same conditions as the ECA loans, until the whole machinery program for the first year, estimated to amount to 120 million dollars, is covered.

To complete this survey, it should be added that the system of inter-European payments, fixed by the Paris agreement of October 1948, proved particularly prejudicial to Italy in view of the phenomenon — which grew more marked in 1948 — of her large credit balances with other participating countries. At the end of March 25 million dollars out of the 47.3 million dollars for which « drawing rights » had been granted, had already been ceded. On the other hand, there has as yet been no opportunity to use the « drawing rights » received to the amount of 22 million dollars. In actual fact this reduces the help received from ERP for 1948-49 and delays the formation of the Lira Counterpart Fund.

3 - *Formation and utilization of the Lira Counterpart Fund.*

Article 4 of the Economic Cooperation Agreement signed in Rome on June 28, 1948 lays down that the Italian Government must open a special account with the Bank of Italy, equivalent to the cost indicated in dollars by the United States Government for goods, services and technical information granted to Italy free of charge and in any of the forms authorized by the 1948 law for Economic Cooperation.

Payments into the Lira Fund Account are based on the so-called *notifications,* which are actually notes of payment. Supplies coming under the heading of loans and those covering conditional aid mentioned in the Paris agreement are not counted, however, and consequently the sum to be paid into the Lira Fund is reduced to this extent. The progressive growth of notifications may be judged from Table VI.

Owing to the unavoidable lapse of time between the arrival of the notifications and the relative payments, the total sums actually cashed in by the Treasury, as proceeds from the sale of products received through ERP, is always slightly lower. Table VII shows, however, that there is a progressive and constant improvement in this respect.

The total of 125.7 billion lire of payments paid into current accounts with the Treasury

PROGRESSIVE GROWTH OF NOTIFICATIONS — TABLE VI

Position on	Number of notifications	Amount			
		In said period	Progressive	In said period	Progressive
		Millions of $		Millions of lire	
30/9/1948	from 1 to 9	56.9	56.9	32,719	32,719
31/12/1948	from 10 to 16 . . .	52.0	108.9	29,886	62,605
31/3/1949 (a) . . .	from 17 to 26 . . .	130.1	239.0	74,830	137,435

(a) In the period from April 1 to May 15, 1949, three more notifications for a total of 43.3 million dollars equal to 24,904 million lire were received. Consequently, on May 15, 1949, the total notifications received amounted to 282.3 million dollars (namely 162,339 million lire).

TABLE VII

ACTUAL FORMATION OF LIRA COUNTERPART FUND

Situation on	Payments made		% of progressive payments to notifications received
	in period	progressive	
	millions of lire		
30/6/1948	—	—	—
30/9/1948	8,120	8,120	24.8
31/12/1948	43,894	52,014	83.0
31/3 1949 (a)	73,722	125,736	91.4

(a) During the period from April 1 to May 15, 1949 payments were made for a total of 25,400 million lire. Consequently payments as a whole amounted to 151,136 million lire on May 15, equal to 93.1 % of the value of the notifications received.

by March 31, 1949 was accounted for by the following large groups of commodities (Table VIII):

TABLE VIII

PAYMENTS ON 31-3-1949 ACCORDING TO GROUPS OF COMMODITIES

Commodities	Value (millions of lire)	% of total
Cereals	57,328.1	45.59
Miscellaneous foodstuffs	1,061.7	0.85
Coal	23,747.5	18.88
Petroleum products	15,052.7	11.97
Textiles	23,682 5	18.84
Industrial & miscellaneous products	4,563.5	3.63
Medicines	3,000.5	0.24
Total	125.736.0	100.0

This same sum of 125.7 billion lire was distributed as follows among the various accounts (Table IX):

TABLE IX

DISTRIBUTION OF THE PAYMENTS MADE

	Value		% of total
	millions of $	billions of lire	
Allotted to:			
1) Italian Govt. Treasury ERP-USA account with Bank of Italy	158.3	91.0	72.4
2) Italian Exchange Control Office in payment of drawing rights (from Oct. 1948 to Jan. 1949)	16.0	9.2	7.3
3) Loan account to balance notified quotas	44.4	25.5	20.3
Total	218.7	125.7	100.0

The Economic Cooperation Agreement contemplates the utilization of this Lira Fund for various purposes. Such utilization must be agreed upon with the United States Government which will take into account the need for promoting or maintaining internal monetary and financial stabilization in Italy, and for stimulating productive activity and international trade and the exploration for and development of new sources of wealth within Italy. Thus the utilization programs (Table X) drawn up some time ago by the Italian Government remain subject to United States approval.

TABLE X

PROGRAM FOR UTILIZATION OF LIRA COUNTERPART FUND

(*billions of lire*)

Contributions			*Loans*	
Agriculture		70	Merchant Marine	5
Merchant Marine		10	Iron and Steel	13
Labour	Building	15	Tourism	8
	Unemployment	20		
Public Works		20		
Transportation		20		
		69		
		224		26

The relative draft laws drawn up by the competent Administrations were passed by the Council of Ministers on Sept. 11, 1948. Taken as a whole the programs should provide for the direct employment of 250-300 thousand workers per year on an average and for the indirect employment of over 100,000 workers in the ancillary industries. In the distribution of the first quota of the Lira Fund, anticipated to amount to a total of 250 billion lire, 224 billions are to be distributed in the form of contributions not to be repaid to the State, while 26 billions take the form of loans to be repaid (apart from the 69 billions earmarked exceptionally to integrate the balance-sheet of the Ministry of Transport in connection with railway works already completed); 73 % of the total amount is to be allocated to public works in Southern Italy and the Islands. Recognising the problem of the Southern regions as one of Italy's main problems, a preferential principle has been followed favouring the South, which, as is well-known, suffers from a chronic lack of capital. This should

help considerably in gradually bringing up the depressed areas of Southern Italy to the same level as the rest of the country (6).

To give one example, we may mention that out of the 70 billion lire earmarked for agriculture, 50 billions will be used for land reclamation works and land improvement in Southern Italy. Further the whole of the allocations for transportation and public works (each amounting to 20 billion lire) are to be spent in the South. The 20 billion lire earmarked for public works are in fact the first allocation for which the ECA Mission has granted its approval (7).

4 - *Conclusion.*

As will be seen from the foregoing survey, utilization of the allocations to Italy has been planned as follows: 69.7 % for imports of foodstuffs, solid and liquid fuel, raw materials and semi-finished products; 14.5 % for imports of machinery and industrial equipment; the remainder for the payment of freights and the purchase of miscellaneous commodities.

According to statements made by the competent Italian authorities and the ECA Mission, future import programs will tend to give increasing importance to producer goods for mass production use. The publication of the ERP « Purchase Program » for the second quarter of 1949, is in fact characterised by the greater importance given to the fixed capital sector to the detriment of the sector of circulating capital. This program includes far larger quotas than in the past for miscellaneous industrial equipment.

This is in keeping with the spirit of ERP, which originally aimed at reinforcing the productive process in Participating Countries. However it was precisely in this sector that obstacles occurred during the first year of the Program's realization in Italy, as a result of the deficiency of capital on the domestic market, which made it difficult for Italy to import, absorb and advantageously use the commodities supplied free of charge. These obstacles could be overcome by extending the system of *loans* also to supplies received as *grants*; this is the object of the previously mentioned draft law now being examined by Parliament.

The shift in the trend of ERP import programs is accompanied by new difficulties. As is well-known, Italy does not produce the main raw materials or produces them in quantities insufficient to cover domestic requirements; the same remark may be made concerning basic foodstuffs such as cereals. Once the present productive capacity of Italian industry is known, together with the technical relationship between the quantity of the product and the quantity of production factors required, it should be comparatively easy to draw up a program for the quantity of commodities needing to be imported. The basic food requirements of the population are equally easy to determine.

But in the case of imports of producer goods it is quite another matter. Many of these commodities, or at least satisfactory substitutes, are produced by Italy in sufficient quantities. Hence a program concerning them needs to be drawn up with great skill in order to avoid unnecessary imports which, if utilized, would compete harmfully with domestic products and, if not utilized, would weigh heavily on the budget.

Secondly, imports of commodities having a specific destination, such as plant and machinery (coal and wheat have a general destination), are obviously more difficult to plan and any mistakes made are bound to weigh far more heavily on economy, since such commodities, belonging as they do to the sector of

(6) See A. Molinari: *Southern Italy*, in this Review, No. 8, 1949, p. 25 et seq.

(7) The following programs have been sanctioned by Parliament and converted into a Bill:

1) Public Works	for	20	billion	lire
2) Merchant Marine	»	8	»	»
3) Labour - Building	»	15	»	»
4) Labour - Unemployment	»	15	»	»
5) Agriculture	»	70	»	»
total	»	128	»	»

Parliament is still examining:

1) Transportation	for	70	billion	lire
2) Tourism	»	8	»	»
total	»	78	»	»

Measures are being studied for the utilization of:

12-13 billion lire to be loaned to the iron and steel industry;

7 billion lire to the Mercant Marine (5 billions in the form of loans plus 2 billions to complete the 10 billions allocated in the form of a contribution). No definite measures seem to have been taken as yet concerning the utilization of the 20 billion lire earmarked for transportation.

fixed capital, unavoidably leave a lasting mark on the productive processes into which they are inserted.

All these difficulties exist and must be overcome: the experience acquired during the first year of putting this complex system into practice should help us to overcome them. Moreover, it is through the reorganisation of economic equipment that it will be possible, after the experimental period of the first year, to increase production and trade among the countries of Europe — an essential condition if Italy is to become self-supporting by the time the Program ends in 1952-53.

This strengthening of Italy's productive activity will have to be fitted into the framework of European cooperation and here other difficulties will crop up. The object of OEEC is to create an interdependent connection between European productive activities which should succeed in removing the friction that formerly broke up the economic unity of the Old Continent and led to exaggerated forms of autarchy. This is a very interesting subject, concerning which, however, no agreement has as yet been reached by the various countries, except in abstract statements. The reality is very different.

Just recently, for instance, there has been the dissent expressed by the French Economic Council concerning the planned Customs Union between Italy and France, caused, among other things, by the fear that Italy's surplus population may shift into the neighbouring Republic, increasing unemployment there. Now the experience of the first year of ERP has shown that Italy has made great progress in all economic sectors, but that its surplus population — causing large-scale unemployment that cannot be reabsorbed by the productive cycle — remains the factor conditioning its definite recovery. The ECA « Country Study » on Italy (February, 1949) quite rightly insists on the necessity of a joint international effort in the next few years aiming to facilitate mass emigration from Italy. It even goes so far as proposing that « encouragement » loans be granted to countries willing to absorb some of the Italian emigrants. Although the statements made by the French Economic Council do not appear very encouraging, history teaches us that the road to international economic cooperation is long and fraught with difficulties. ERP has made the first step along a path that must be folloved in the interest of all the countries of Europe.

Index Numbers of Industrial Production and Capitalisation in Italy

by

PIETRO BATTERA

This article has a twofold purpose: 1) to explain the method followed in compiling two of the basic index numbers of Italian economic life; 2) to account for some of the results arising from the association of these two index numbers.

1. — We shall here consider only the *index numbers of Italian industrial production* now compiled by the Central Institute of Statistics in Rome. The fundamental notion underlying the compilation of these index numbers is that by taking a not very large number of concerns, suitably selected from the several branches of production, it is possible to secure a figure which is highly representative of production in general. In this connection, a series of special returns which were made on the basis of the statistical data contained in the 1937-39 industrial census showed a high degree of industrial concentration, especially in some branches of production. In other words, an endeavour has been made to compile the index numbers of industrial production on the basis of the highest percentage of outptut calculated for the total amount of each branch. In this way the criterion of the representative character of the concerns has been sacrificed, since it was not possible to extend the enquiry to all businesses, and therefore, in the case of some industries, the small and medium-sized firms were not taken into account.

The representative character of the statistical data used in compiling the index numbers under consideration varies in degree from 100 % to 60 % for almost all the groups of productive activity. Only in the case of certain industries, in which production is split up among a great number of business firms, does the representative character fall below 60 %: in such cases the output of all the large undertakings is included in the index.

Therefore, if account be taken of the fact that the production index should aim above all at giving a picture of the variations of production in time, we can safely state that for this purpose our statistical data are more than sufficiently representative.

In the index of industrial production compiled by the Central Institute of Statistics the several branches of production are largely represented and at present it is only for two groups of industries that the data have to be completed to enable them to be included in the general index: these are the engineering and building industries. In regard to the light engineering industries, index numbers have so far been compiled for the following sub-sections: (1) ball-bearings; (2) cash registers; (3) Diesel engines; (4) electric bulbs; (5) building and repairing of railway rolling-stocks; (6) autovehicles. Index numbers are now being compiled for another important group of engineering industries and before long it will be possible to compile an adequately representative index for this whole group.

In considering the several problems of methodology involved in the compilation of the index of production, account has been taken, to the fullest extent possible, of the need to make Italian index numbers comparable with those of other countries. For this purpose an endeavour has been made to follow the suggestions put forward by the Committee of Statistical Experts of the League of Nations. Thus at first the index numbers were compiled experimentally with the geometrical mean, but later on with the arithmetical mean, on the basis of Laspeyres well-known formula. The production index for the several items is compiled on the basis of the ratio $q_1 \div q_0$. In weighting the industrial groups, classes, and sub-classes, the Central Institute of Statistics has kept strictly to the suggestions of the League Committee of Statistical Experts and has taken into due account the fact that an index number whose purpose is to show variations in the physical volume of production should include all the stages of production, each of which should be valued proportionately to its net output, *i.e.* only in the degree in which each contributes to the output of the respective industries. In other words, the weighting coefficients to be applied to the quantitative variations actually measured correspond to the added value of production of the whole economic sector, apart from the fact that the quantities returned correspond to the total production or only to a production representative of that total. The added values of production used in weighting the index numbers have been obtained from the Industrial Census of 1937-39.

In compiling the monthly index numbers it was not possible to take 1938 as the basis, since in that case it would have been necessary to eliminate a certain number of businesses for which returns could only be obtained from 1947 onwards. Therefore the solution adopted has been that of taking the average for 1947 as the basis for the *monthly* index numbers.

The problem of linking up these index numbers with those of the pre-war period still has to be solved, and it was decided to compile an independent *annual* index with 1938 as basis. It is of course understood that the passage from the annual to the monthly index numbers would be possible only if the geometric mean were used in making the calculation.

Finally, the problem of classifying productive activities for the purpose of compiling the index number has been solved by adopting the international classification suggested by the Economic Committee of UNO.

2. — *Index numbers for the capitalisation of share investments* have not yet entered into common use, although they undoubtedly provide a valuable instrument for studying the financial market. A first tentative enquiry was made by G. Barsanti when he wished to determine the vicissitudes of capital owned by two shareholders, of whom one was held to be poor and the other rich (1). The premise from which Barsanti started was that the poor shareholder, after making the first investment, could not provide the sums required to cover capital increases and was therefore compelled to sell his options; while the rich shareholder was always in a position to avail himself of every advantage accruing to the shares he owned. At the end of a given period, and for a given security, the difference between the amounts of capital held by the two shareholders was clearly shown. In 1937 Luigi Einaudi suggested that an index number be compiled that would show, for a given period, the amount of share capital, at the ruling market quotation, of an imaginary investor who would reinvest all the proceeds arising from his initial investment (2). Acting on Einaudi's suggestion, G. Capodaglio compiled index numbers for the capitalisation of certain securities (Suez Canal, Italian Southern Railways) (3). The Mediobanca has recently compiled index numbers for the capitalisation and yield of 136 securities quoted on Italian stock-exchanges (4). In the meantime the Central Institute of Statistics has compiled similar index numbers which were first published in the « *Compendio Statistico Italiano*, 1947-48 » (pag. 121 et seq.) (5), for the most important Italian shares.

In compiling the index numbers of capitalisation, several hypotheses may be taken as a basis. In the first place, we may suppose that the imaginary investor has gradually reinvested all the proceeds received over a certain number of years (dividends, options, bonuses, reimbursements of capital, etc.) in the same security; or we may suppose he has thus reinvested all the proceeds minus the dividends. From some points of view the second hypothesis is more plausibile than the first, as it is likely that the shareholder would consume part of the income he received, unless indeed he possessed other means of livelihood.

On the basis of the second hypothesis the index of capitalisation will be compiled in the following manner: taking q_o as the number of the shares purchased at o time at p_o price, the amount of the initial disbursement will be $q_o p_o$. Subsequently, at the times 1, 2, ... t free distribution of shares may be made, options offered or capital reimbursed, etc. When there is a free distribution of shares, the shareholder retains the free shares and sells, at the ruling market price at the time of the option, only that part of the shares needed to reimburse himself for any expenses he may have incurred. In the case of options, he only sells the number of shares required to reimburse himselfs for sums spent in covering the options. As regards capital repayment, the shareholder reinvests the capital repaid and so on for all receipts, with the exception of ordinary dividends.

After carrying out these operations the shareholder, at the t moment will be in possession of q shares, which at the price ruling at the said t moment will have the value of $q_t p_t$. The index of capitalisation will then be given by $I_t = q_t p_t / q_o p_o$.

In addition to the index of capitalisation which we have just discussed, it will be possible to calculate along similar lines an *index of yield at t moment on the capital originally invested*. Having calculated the number of q_t shares at t moment, corresponding to the q_o shares of the original investment, and having ascertained the value of the dividend per share at the end of financial year t, net of taxes, as equal to d_t, the index for the yield on the shares of the original investment will be given by $Y_t = d_t q_t / q_o p_o$. The index of yield thus obtained, multiplied by 100, will show the annual income matured during the business year that closed at the time t for each 100 lire of capital originally invested.

When the index of capitalisation has been calculated for each security quoted on the Stock Exchange, it will then be possible to calculate the index for each group and each class of security and also to compile a general index of capitalisation for all the securities quoted.

The index numbers for each group and the general index number are compiled in conformity with the Lespeyres formula, and the weight assigned to the index for each security will correspond to the value on the exchange at the making-up prices of the securities existing on the initial date.

3. — Having laid down these premises, let us now examine the trend of the index for industrial production during the last two years.

(1) G. Barsanti: *Le vicende del patrimonio dell'azionista italiano durante il periodo 1913-28*, in « Annali di Statistica », Serie VI, vol. XXII, Roma, 1932.

(2) L. Einaudi: *Tema per gli storici dell'economia. Quale fu nel secolo presente il saggio di frutto degli investimenti di capitale?*, in « Rivista di Storia Economica », Torino, 1937.

(3) G. Capodaglio: *Storia di un investimento di capitale. La Società italiana per le strade ferrate meridionali, 1862-1937*, in « Annali dell'Istituto di Statistica dell'Università di Bari », Vol. XVII (Studi in onore di Luigi Amoroso), Bari, 1940.

(4) Banca di Credito Finanziario-Mediobanca: *Indici e dati relativi ad investimenti in azioni quotate nelle borse italiane (1928-1948)*, Milano, 1948.

(5) and revised for 122 leading companies in: *Annuario Statistico Italiano 1944-48*, Serie V, vol. I, pag. 334 et seq.

The *annual* production index compiled on the 1938 basis shows a considerable decline of industrial activity in 1947 and 1948 as compared to the pre-war period. The general index for 1947 stood at 87, for 1948 at 95. The exclusion of the light engineering and building trades from the compilation of the general index might, however, lead to the opinion that these figures are too high. Indeed, it seems likely that the inclusion of the index for the engineering trades would have reduced the general index number, and this is confirmed by the index for output in the heavy engineering industries which may be taken as affording indirect evidence of activity in the light engineering trades; in 1947 that index had fallen to 75 and in 1948 to 87. With regard to te building trades it is, however, doubtful whether the inclusion of the respective index would have lowered the general production index, as while the activity of the house building industry fell in 1947 and 1948, this was offset to a great extent by activity in the sphere of public works. This is confirmed by a study of the production index in industries working non-metallic ores (glass, cement etc.), the index numbers for which, during these two years, were respectively 90 and 94.

On the other hand, the general index for industrial production may be undervalued as a result of the exclusion of handicrafts. It may be, indeed, that output in this sector, which is not included in the index, has considerably increased over pre-war figures; if this sector of Italian productive activity were taken into account the picture might well be more encouraging than that shown by the official index.

Table I gives the index numbers for industrial production in 1947 and 1948 as compiled by the Central Institute of Statistics.

TABLE I

INDEX NUMBERS OF INDUSTRIAL PRODUCTION IN 1947 AND 1948

Group and Class of Industry	(1938 = 100)		(1947 = 100)
	1947	1948	1948
General Index Number	87	93	107
I. *Mines and quarries*	93	84	113
1 - Coal and lignite	218	129	59
2 - Metallic ores	52	71	142
3 - Hydrocarbide gases . . .	544	611	116
4 - Other minerals	53	58	114
5 - Marble quarries	68	51	76
II. *Manufacturing Industries* . .	82	90	106
1 - Food processing	73	87	?
2 - Tobacco	104	112	108
3 - Textiles	92	91	96
4 - Wood	67	54	80
5 - Paper and pasteboard . .	70	74	108
6 - Rubber	91	102	110
7 - Chemicals	85	93	112
8 - By-products of coal and oil	82	124	146
9 - Processing of non-metallic ores	90	94	106
10 - Metallurgy	75	87	121
III. *Electricity and Gas*			
1 - Electric power	134	149	110
2 - Gas	119	144	122

A comparison of the group index numbers and of those for the several classes of industry shows certain wide variations from the figures for 1938. Apart from the increase in the 1947 production index for coal and lignite, more especially the latter, and for hydrocarbide gases, the industries that have touched peaks are the electrical industry, gas, by-products of mineral oils, rubber and tobacco.

The larger increases in the production index numbers in 1948 as compared to 1947 (see last column of Table I) were those for the output of metallic ores, by-products of coal and oil, iron, steel and gas. The output of coal and lignite, marble and wood, on the other hand, fell off considerably. In the case of coal, the reduction will be readily understood when we remember that Italian output consists largely of lignite, which has been gradually replaced by coal now that imports have returned to normal.

If we examine the *monthly* index numbers for production classified by groups and classes of industry, taking as our basis the monthly average for 1947 as equal to 100, we find a definite improvement in 1948 over 1947, and the trend during the first months of 1949 leads us to expect a further improvement in production during the current year. If we compare the index numbers for January-March 1947 with those for the same period in 1948, and similarly those of 1948 with 1949, and the index numbers for November and December 1947 respectively with those for the corresponding months of 1948, we note in general a considerable increase, more especially in the manufacturing industries.

We have a special reason for believing that the results so far secured are far from negligeable. The base year generally taken as a point of reference in comparing present conditions with pre-war times is 1938. Now if the base of any index number, or rather the year used for purposes of comparison, is designed to reflect normal conditions, it is evident that 1938 cannot be considered a good basis. First, in 1938 Italy was just recovering from a colonial war which had engaged all its resources and had undertaken a work of colonisation that acted as a stimulus to production (6). Secondly, the country can now secure from abroad supplies of many raw materials, so that the autarchic trend in production has been almost completely abandoned, thus changing the direction given to Italian economy during the 15 years preceding the last war.

Though available information on the matter is

(6) If we take only key products, we find that from 1929 to 1938 the output of pig-iron rose from 678,000 to 863,000 tons, that of crude steel from 2.1 million to 2.3 million tons, that of sulphuric acid from 1.3 to 1.7 million tons, that of nitric acid from 39.4 thousand to 305.5 thousand tons, that of ethyl alcohol from 499,000 hectanhydrides to 628,000; caustic soda from 126.3 to 165.0 thousand tons, synthetic ammonia from 43 thousand to 113.2 thousand tons, benzole from 3.2 thousand to 11.2 thousand tons, cement from 3.4 to 4.6 million tons.

PRODUCTION INDEX NUMBERS FOR GROUPS AND CLASSES OF INDUSTRY

(*Base: annual monthly average* 1947=100) TABLE II

Month	Global Index Number	Mines & Quarries						Manufacturing Industries											Electricity & Gas		
		Total	Coal & lignite	Metallic ores	Hydro-carbide gases	Other mineral products	Marble quarries	Total	Foodstuffs (*)	Tobacco (*)	Textiles	Wood	Paper & paste-board	Rubber	Chemicals	By-products of petroleum & coal	Processing non-metallic ores	Metallurgy	Total	Electric power	Products of gas works
1947																					
March	90	93	110	90	87	90	74	90	80	103	96	97	94	96	82	61	83	87	88	88	90
April	100	93	99	87	79	100	97	101	87	103	104	120	100	102	94	72	95	104	100	101	93
May	112	101	102	94	96	108	123	112	65	102	111	120	109	108	112	111	102	120	116	118	97
June	111	105	102	98	104	108	149	111	81	89	107	115	106	105	118	115	103	115	115	117	94
July	118	118	119	120	111	112	133	117	96	106	118	116	119	120	116	111	108	122	121	124	96
August	100	102	104	95	111	106	126	98	100	84	86	96	96	73	115	105	111	105	111	112	99
Sept.	108	113	109	115	125	115	104	109	123	105	113	110	111	118	109	127	92	102	101	100	107
October	113	116	117	125	129	101	108	115	140	112	116	102	122	122	112	137	125	113	103	100	126
Nov.	102	104	92	111	111	106	85	103	106	101	96	86	99	109	109	126	118	106	96	94	114
Dec.	98	98	76	111	119	96	74	97	142	100	89	78	89	110	106	149	111	97	102	99	128
1948																					
January	95	99	69	120	98	95	64	93	100	105	92	75	86	101	92	106	110	93	102	99	128
February	95	103	67	129	101	97	52	94	89	99	89	75	94	107	93	136	95	103	99	97	120
March	103	113	66	141	102	106	92	102	126	98	94	87	105	104	104	143	99	118	102	99	132
April	105	115	70	139	103	118	68	104	117	94	97	95	105	109	104	127	107	120	104	102	122
May	106	112	57	142	94	114	72	104	117	86	89	79	96	98	120	133	105	128	115	113	132
June	109	116	61	148	102	109	82	107	113	96	93	89	101	96	111	155	103	139	117	117	122
July	110	118	56	156	104	110	77	108	120	112	99	80	104	106	121	?	108	133	119	119	117
August	102	113	51	138	119	124	77	99	105	106	79	62	91	78	127	219	108	111	114	115	106
Sept.	119	124	65	154	139	127	78	118	134	131	107	83	126	126	126	187	111	139	119	120	113
October	116	122	55	153	139	125	92	116	144	134	110	81	129	132	116	177	113	127	114	112	130
Nov.	112	117	45	148	122	125	85	112	151	124	104	79	131	128	116	185	107	121	109	108	121
Dec.	112	109	47	137	172	112	74	112	183	110	102	75	128	129	116	188	109	124	112	110	128
1949																					
January	104	98	54	123	169	92	59	104	156	112	98	77	128	119	110	185	89	104	103	102	113
February	98	88	59	107	174	72	87	101	156	111	98	74	121	122	106	161	94	96	89	86	115
March	107	105	62	120	176	117	74	111	161	125	108	86	136	?	109	203	110	109	88	84	128

(*) The index numbers for these classes of industry are not for the time being included in the index number for the group.

very scanty, it may be assumed that the structural lines of our productive equipment have been considerably modified in this post-war period and we are justified in thinking that many industries now producing for the consumer market were working in 1938 on munitions of war.

These considerations throw a significant light on the indexes of industrial production we have been examining, and it is strange that careful observers, including foreigners, have failed to take into due account the influence that the selection of 1938 as the base year has exercised on the figures for the level of Italian production.

This leads us to the conclusion that Italian industrial production in 1948 would not have fallen below that of 1938 if in the latter year production had not been artificially boosted, on the one hand, by orders for the army and the colonies, and on the other by the effects of the autarchic policy then being followed.

4. — The history of share capital in Italy from 1938 to 1948 can be summed up by saying that one lira invested *pro rata* of the share capital of the 122 italian companies considered in this article, had by the end of 1948 become 15.88 lire. This much we learn from the general capitalisation index. If we take into account the fact that the wholesale price index (1938=100) averaged 5,443 in 1948, and the cost of living index 4,921, we note that the value of the lira invested in equities in 1938 had fallen in 1948 to 0.292 of the 1938 lira if referred to the wholesale price index, and to 0.323 if referred to the cost of living index.

The capitalisation indexes compiled by the Central Institute of Statistics for the several groups of securities present marked variations. The capital value of one lira invested in January 1938 fluctuated at the end of 1948 between a minimum of 2.554 lire in the shipbuilding companies to a maximum of 51.873 in the hemp and flax industries, and 48.987 in the cotton industry.

In Table III we give the index numbers for capitalisation, for yields matured on each 100 lire invested in 1938, and the annual percentage returns referred to average making-up prices in December.

Passing from the study of the index numbers for capitalisation to the study of the returns matured in

TABLE III

INDEX NUMBERS FOR CAPITALISATION (1947 and 1948) AND YIELD (1947). PERCENTAGE RETURNS REFERRED TO AVERAGE MAKING-UP PRICES (1947)

Groups of Shares (122 leading companies)	Capital Value at close of year of 1 lira invested in January 1938		Returns matured in 1947 for each 100 lire invested in Jan. 1938	% returns in 1947 referred to average making-up prices in Dec.
	1947	1948		
1 - Financial (4) . . .	10.665	16.692	15.159	1.421
2 - Insurance (5) . . .	17.230	17.594	11.518	0.668
3 - Mining and quarrying (4)	10.557	12.583	16.496	1.563
4 - Heavy engineering (4)	4.748	7.887	20.110	4.236
5 - Light engineering (11)	12.015	7.882	3.002	0.250
6 - Shipbuilding (2) . .	2.639	2.554	—	—
7 - Electrical engineering (2)	8.345	7.051	10.682	1.280
8 - Industries processing non-metallic ores (3)	23.345	30.041	64.370	2.757
9 - Chemicals (3) . . .	14.405	12.696	46.224	3.209
10 - By-products of petroleum (2)	11.975	14.138	10.106	0.844
11 - Paper (3)	31.622	32.887	65.236	2.063
12 - Cotton (12)	33.612	48.987	36.738	1.093
13 - Wool (5)	20.672	32.471	41.341	2.000
14 - Silk (3)	19.872	25.595	34.226	1.722
15 - Synthetic fibres (2) .	23.717	28.961	61.706	2.602
16 - Hemp and flax (1) .	40.953	51.873	54.604	1.333
17 - Flour mills and edible paste factories (5) .	14.248	20.641	24.864	1.745
18 - Sugar and distilleries (5)	16.288	22.514	27.792	1.706
19 - Sweetmeats (1) . .	30.398	21.025	40.532	1.333
20 - Electrical (20) . . .	7.723	11.782	13.758	1.781
21 - Rubber and connected industries (1) . . .	22.605	23.686	91.642	4.054
22 - Sea transport (1) . .	27.500	27.034	62.500	2.273
23 - Rail and tramway transport (5) . . .	9.425	8.415	4.062	0.431
24 - Telephones (3) . . .	7.633	9.364	12.838	1.682
25 - Aqueducts (7) . . .	8.965	7.500	11.378	1.269
26 - Agricultural (7) . .	9.304	9.842	10.434	1.121
27 - Real estate (5) . . .	15.800	16.760	12.202	0.772
28 - Miscellaneous (1) . .	18.061	24.286	45.918	2.542
General Index Number (122)	12.689	15.880	22.740	1.792

1947 for each 100 lire of capital invested in January 1938, we find, for the 122 securities under consideration, an average yield of 22.74, ranging from a minimum of zero for shipbuilding securities to a maximum of 91.642 for shares in the rubber industry. The percentage yield referred to year end making-up prices for 1947 amounted, for the securities under consideration, to 1.792 %, ranging from a maximum for the rubber industry (4.054) to a zero percentage for the shipbuilding industry.

If instead of examining the average index numbers for the several groups, we examine those for the individual securities, we find in some cases a very high index of capitalisation which amply offsets the effects of currency depreciation. Thus, for instance, for some textile securities the capitalisation index in 1948 stood at 70.588 (*Cotonificio V. Olcese*), at 60.696 (*Cotonificio Valle Ticino*), at 58.524 (*Manifatture cotoniere meridionali*), at 62.738 (*Fisac*). The lowest index numbers are those for the engineering industries, with the exception of the *Dalmine* (29.203). In the case of electric power companies, share capitalisation indexes are very low indeed, and only the *Edison* and the *Romana di Elettricità* exceeded the average for the group. The fact that the index numbers of share capitalisation in the Italian electric power companies — formerly the best Italian investments — have fallen so low, while other securities that were not always profitable show such a high capitalisation index, calls for an explanation.

5. — If we take the trouble to compare the index of capitalisation considered above with that for industrial production, we find, for instance, that the production index in the electric power industry in 1948 stood at 149 (1938 = 100) as against a capitalisation index of 11.782; that the production index for the gas industry stood at 144 while the capitalisation index was 9.042 (*Italgas*); that the production index for petroleum by-products stood at 124 and that for capitalisation at 14.318. On the other hand, in the textile industries, whose production index in 1948 stood at 91, the index of capitalisation exceeded 30, ranging between a maximum of 51.873 and a minimum of 25.595; in the paper industries the production index stood at 74 and that of capitalisation at 32.887. In some cases, as in the metal and chemical industries, low production index numbers are matched by low indexes of capitalisation. On comparing these figures, one notes that in several cases a high production index is accompanied by a low index of capitalisation; and, viceversa, a high capitalisation index is accompanied by a low production index. This phenomenon is a sign of abnormal market conditions under which industrial profits are due to scarcity of supplies and price policy rather than to a high level of output. A typical case is the paper industry which in 1947 and 1948 clearly secured large profits by charging wery high prices, made possible by the lack of adequate market competition. Indeed, an examination of the prices for paper in 1947 and 1948 soon enables us to identify the source of the excess profits made by the paper mills. As against an average wholesale price index of 5159 in 1947 and 5443 in 1948, the wholesale price index for the paper mills stood at 7574 and 5857 respectively. Again, in the textile industries, the price index for 1947 stood at 7338 and for 1948 at 5920. But in the case of mineral oils — subject to price controls — the index stood at 2356 in 1947 and at 3732 in 1948, while for the electric power industries the price index for 1947 stood around 1400 and it was only towards the end of 1948 that it rose to 2400. In the gas industry also prices were regulated in much the same way as those for electric power.

This abnormal situation in highly important branch-

TABLE IV

INCREASE IN CAPITAL BY NEW INVESTMENTS; CONSISTENCY OF COMPANIES FACE CAPITAL IN 1947 AND 1948; ESTIMATED VALUE OF SHARE CAPITAL AT AVERAGE MAKING-UP PRICES ON 31.XII.1948

(*millions of lire*)

Groups of Shares (122 leading companies)	1947		1948		Share value at average making-up prices on 31-XII-48	% of face capital referred to share value at average making-up prices on 31-XII-48	% of new investments on	
	New investments	Consistency of face capital on 31.XII	New investments	Consistency of face capital on 31-XII			Face capital 1948	Share value at average making-up prices 1948
1 - Financial (4)	1,513	3,933	2,241	7,020	31,883	22.0	31.9	7.0
2 - Insurance (5)	1,290	2,207	2,140	6,092	19,631	31.0	35.1	10.9
3 - Mining and quarrying (4)	125.9	676.2	414	1,192.7	7,456	16.0	34.7	5.6
4 - Heavy engineering (4)	5,875	11,270	—	11,450	27,130	42.2	—	—
5 - Light engineering (11)	5,173	9,456	8,924	17,881.5	28,383	63.0	49.9	31.4
6 - Ship-building (2)	1,000	1,450	-	1,450	1,480	98.0	—	—
7 - Electrical engineering (2)	—	197	591	1,576	1,961	80.4	37.5	30.1
8 - Industries processing non-metallic ores (3)	227	867.5	500	2,567.5	18,534	13.9	19.5	2.7
9 - Chemicals (3)	4,620	13,100	12,260	25,840	60,046	43.0	47.4	20.4
10 - By-products of petroleum (2)	—	754.9	—	774.5	10.440	7.4	—	—
11 - Paper (3)	—	661	—	1,448	9,667	15.0	—	—
12 - Cotton (12)	402	2,015.7	80	3,033.6	73,142	4.1	2.6	0.1
13 - Wool (5)	122	580	340	920	14,471	6.4	37.0	2.3
14 - Silk (3)	116.3	384.6	—	466.5	4,383	10.6	—	—
15 - Synthetic fibres (2)	—	2,150	4,200	9.500	50,429	18.8	44.2	8.3
16 - Hemp and flax (1)	510	680	—	1,088	10,336	10.5	—	—
17 - Flour mills and edible paste factories (5)	—	142.4	—	142.4	3,140	4.5	—	—
18 - Sugar and distilleries (5)	—	685.6	—	326.8	23,498	1.4	—	—
19 - Sweetmeats (1)	223	312.5	—	312.5	2,594	12.0	—	—
20 - Electrical (20)	13,832	40,807	6,695	95,688	178,264	53.7	7.0	3.8
21 - Rubber and connected industries (1)	2,750	4,950	5,000	10,000	24,600	40.7	50.0	20.3
22 - Sea transport (1)	—	43.1	—	43.1	1,579	2.7	—	—
23 - Rail and tramway transport (5)	523.2	1,347.4	—	1,347.4	2,843	47.4	—	—
24 - Telephones (3)	530	1,740	2,640	7,600	17,804	42.7	34.7	14.8
25 - Aqueducts and gas (7)	894	3,990	2,946	10,209	14,925	68.4	28.9	19.7
26 - Agricultural (2)	—	198.3	—	198.8	1.491	13.3	—	—
27 - Real estate (5)	349.8	1,070.2	712	2,914.8	13,951	20.9	24.4	5.1
28 - Miscellaneous (1)	—	36	—	36	856	4.2	—	—
Grand total (122)	40,076.2	105,705.9	49,683	224,060.3	648,917	34.5	22.2	7.7

es of Italian production leads to consequences which cannot be ignored when making a valuation of Italian production, especially if the problem of industrial investments is also being considered.

For this purpose we have thought it advisable to ascertain for the years 1947 and 1948 the amounts of fresh capital brought into the 122 companies for which we have calculated the capitalisation index.

The largest subscriptions of fresh capital have been secured in the light engineering, chemical, electrical, water and gas supply, rubber and synthetic fibre companies. If the companies belonging to the two last named industries are excluded, it is clear that those which in 1947 and 1948 invited new capital subscriptions are precisely those with the lowest capitalisation index numbers, *i.e.* businesses in which investment is least profitable.

Companies with a high index number for share capitalisation and yield have not called for new capital, which would suggest that they can finance themselves adequately. If we consider the debenture issues during 1947-1948, we find that in 1947 they only amounted to 2.2 milliard lire but rose in the second year to 35.2 milliard lire. Here again the issues were put out especially by the light engineering trades (15.7 milliards in the two years), the electrical industries (10 milliards) and the chemical industries (5.8 milliards).

Thus the fresh capital subscribed to the most important Italian share-companies (122) in 1948 amounted to 84.9 milliard lire, a far from negligeable figure if we take into account the additional investments in all the other concerns, the undistributed profits, short and long-term investments by the State and other financing bodies.

STATISTICAL APPENDIX

ITALIAN BUDGET SUMMARY

(in milliards of lire)

Table A

Fiscal year beginning 1st July	Ascertained receipts					Engaged expenditure					Surplus or deficit		
	Actual receipts			Movement of capital	Total	Actual expenditure			Movement of capital	Total	Actual receipts and expenditure	Movement of capital	Total
	Ordinary receipts	Extraordinary receipts	Total			Ordinary expenditure	Extraordinary expenditure	Total					
1938-39	27	.9	28	3	31	23	17	40	2.8	43	— 12	+ .2	— 11.8
1945-46	125	3	128	92	220	160	349	509	44	553	— 381	+ 48	— 333
1946-47	346	6	352	335	687	318	614	932	303	1,235	— 580	+ 31	— 549
1947-48	674	154	828	200	1,028	615	932	1,547	265	1,813	— 719	+ 65	— 785
July 1948 - May 1949 (a)	826	72	898	29	927	725	653	1,378	86	1,464	— 480	— 57	— 537

(a) The Minister of Finance, in his speech to the Chamber on July 5, 1949, stated that the deficit for the fiscal year 1948-49 amounted to 521 million lire, and that the deficit for the fiscal year 1949-50 has been calculated at 207 milliard lire.

Source: *Bollettino Mensile* of the Central Institute of Statistics.

ITALIAN INTERNAL NATIONAL DEBT

(in milliards of lire - Index Numbers, 1938 = 100)

Table B

End of period	Consolidated and others		Redeemable debt		Floating debt					Notes of the State	Total of internal national debt	
					Treasury bills	Interest bearing current accounts	Advances by the Bank of Italy	Total				
	Amount	I.N.	Amount	I.N.				Amount	I.N.		Amount	I.N.
1938 June	53	100	49	100	9	20	1	30	100	1.5	133.5	100
1945 »	53	100	206	420	157	93	331	581	1,936	7.3	847.3	635
1946 »	53	100	278	567	239	146	343	728	2,426	7.3	1,066.3	799
1947 »	53	100	429	875	279	175	366	820	2,733	6.6	1,308.6	980
1948 »	53	100	419	856	483	276	473	1,233	4,110	7.1	1,712.1	1,282
1949 January	53	100	417	851	663	342	471	1,476	4,920	8.0	1,954	1,464
February	53	100	417	851	691	357	470	1,518	5,060	8.1	1,996.1	1,495
March	53	100	392	800	720	370	470	1,560	5,200	8.3	2,013.3	1,509
May	53	100	392	800	746	402	470	1,618	5,393	8.4	2,071.4	1,551

Source: *Bollettino Mensile* of the Central Institute of Statistics.

PRINCIPAL ASSETS AND LIABILITIES OF THE BANK OF ITALY

Table C

Item	December 31, 1938		December 31, 1946		December 31, 1947		1948				March 31, 1949	
							June 30		December 31			
	milliards of lire	%	milliards of lire	%	milliards of lire	%	milliards of lire	%	milliards of lire	%	milliards of lire	%
Assets												
Gold	3.8	16.8	.5	.07	.5	.05	.5	.05	1,3	.09	1.3	.09
Foreign Exchange deposited abroad	—	—	8.7	1.2	12.8	1.2	13.1	1.2	17,2	1.3	31.2	2.3
Cash	.5	2.04	1.1	0.2	1.3	.1	1.3	.1	1,5	.1	1.7	.2
Bank lendings to the Government (a)	5.5	24.3	594.5	85.3	720.6	74.7	825.0	77.3	876.6	66.7	872.1	64.6
Sundry debtors (b)	—	—	9.5	1.4	49.2	5.1	94.9	8.9	213,8	16.3	267.6	19.8
Credits to clients (c)	12.9	56.4	63.6	9.1	171.5	17.7	117.6	10.6	180.7	13.7	165.1	12.2
Other assets	.1	.5	18.8	2.7	9.9	1.0	12.7	1.2	22.9	1.7	11.4	.8
Total	22.8	100.0	696.9	100.0	965.0	100.0	1,066.7	100.0	1,314.0	100.0	1,350.4	100.00
Liabilities												
Note circulation	18.9	83.09	505.0	72.5	788.1	81.7	815.9	76.5	963.0	73.3	892.1	66.0
Sight drafts	.9	3.9	15.1	2.2	16.2	1.7	16.6	1.5	17.9	.4	17.3	1.2
Demand Deposits	.8	3.6	59.1	8.5	52.5	5.4	36.0	3.4	68.0	5.2	100.9	7.4
Tied Deposits	.3	1.5	106.0	15.2	86.5	9.0	149.7	14.0	164.0	12.5	194.2	14.3
Counterpart Lira-Fund	—	—	—	—	—	—	17.3	1.6	58.1	4.4	112.6	8.3
Other liabilities	1.8	7.9	11.6	1.7	22.5	2.3	31.1	2.9	42.9	3.3	33.6	2.4
Total	22.8	100.0	696.9	100.0	965.1	100.0	1,066.7	100.0	1,314.0	100.0	1,350.3	100.00

(a) Includes: Government securities, advances to the Treasury, advances on Allied Forces account, current account with the Treasury, sundry credits on Government account, gold deposited abroad due by the State; (b) Mainly, advances to the Italian Exchange Office for export financing; (c) Includes: inland bills, bills for collection, advances.

Source: *Bollettino* of the Bank of Italy.

Table D

DEPOSITS AND CURRENT ACCOUNTS IN ITALIAN ORDINARY BANKS (a) AND POSTAL SAVINGS BANKS

End of period	Ordinary Banks						Postal Savings Banks		
	Time and Demand deposits		Current Accounts (b)		Total		Deposits and current accounts		
	Millions of lire	Index Number	Millions of lire	Index Number	Millions of lire	Index Number	Millions of lire	Index Number	Percent ratio to deposits and c/a of ordinary Banks
1938	38,037	100	17,495	100	55,532	100	30,368	100	54.68
1945	240,609	632.5	165,977	948.7	406,586	732.1	104,755	344.9	25.76
1946	368,249	968.1	329,806	1,885.1	698,055	1,257.0	165,404	544.6	23.69
1947 Dec.	528,516	1,389.4	485,373	2,774.3	1,013,889	1,825.7	231,817	763.3	22.86
1948 March	601,800	1,582.1	527,708	3,016.3	1,129,508	2,033.9	271,036	892.5	23.99
» June	651,375	1,712.4	609,763	3,485.3	1,261,138	2,271.0	304,353	1,002.2	24.13
» Sept.	740,492	1,946.7	664,620	3,798.6	1,405,112	2,530.2	340,107	1,116.9	24.20
» Dec.	805,497	2,117.6	714,781	4,085.6	1,520,278	2,737.6	380,184	1,251,9	25.00
1949 January	825,322	2,169.7	737,166	4,213.5	1,562,488	2,813.6	400,657	1,319.3	25.64
» February	831,741	2,186.6	747,621	4,273.3	1,579,362	2,844.0	415,916	1,369.5	26.33
» March	845.176	2,221.9	774,422	4,426.5	1,619,598	2,916.5	..	..	..
» April	846,695	2,225.9	773,109	4,419.0	1,619,804	2,916.8	..	..	..

(a) Public Law Credit Institutes, Banks of National Interest, Ordinary Credit Banks, Peoples' Co-operative Banks, Savings Banks and Pledge Banks of 1st Category.
(b) Inter-bank current accounts are excluded.
Source: *Bollettino* of the Bank of Italy.

BANK CREDITS IN ITALY, BY BUSINESS BRANCHES
(Banks of National Interest and Public Law Credit Institutes) (a)

Table E

Business Branches	December 31, 1938		December 31, 1947		December 31, 1948		
	million lire	% of total	million lire	% of total	million lire	% of total	I.N. (31.XII. '38=1)
1. Personal (professional, consumer, etc.)	1.378	8.98	16,161	4.50	18,619	3.47	14
2. Public Institutions (Institutions for specialised ec. activities excluded)	1,710	11.24	15,354	4,28	17,350	3.23	10
3. Banks, exchanges, fin. and ins. Cos.	1,017	6.62	26,864	7.49	41,124	7.66	40
4. Transport and communications	277	1.80	12,021	3.35	13,903	2.59	50
5. Electric power, gas, water	229	1.49	7,734	2.15	4,815	0.89	21
6. Hotels, entertainments	99	0.64	1,665	0.46	3,388	0.63	34
7. Building and property, public works, land-reclamation	2,011	13.10	19,657	5,48	23,212	4.32	12
8. Agriculture and agricultural equipment and supply trades	670	4.36	12,805	23.57	37,848	7 05	56
Industry and wholesale trade in:							
9. Grain, foodstuffs, drink	2,040	13.29	91,016	5.45	142,753	26.72	70
10. Wood and related products	925	6.02	6,909	1.92	10,027	1.86	45
11. Non-metallic mineral ores	521	3,39	13,182	3.67	28,663	5.34	55
12. Steel, metal and engineering products	2,114	13.78	47,225	13.16	68,690	12.82	32
13. Chemical products	304	1.98	20,062	5.59	19,974	3.70	66
14. Paper and printing	171	1.11	5,316	1.48	7,439	1.38	44
15. Hides and skins	287	1.87	7,597	2.11	13,988	2.60	49
16. Textile products and clothing	997	6.49	38,227	10.65	59,277	11.05	59
17. Other trades and industries	69	0,44	3,342	0.93	6,758	1.26	28
18. Retail trade and miscellaneous services	552	3.40	13,507	3.76	18,418	3.43	35
Total	15,341	100.—	358,644	100.—	536,246	100.—	37

(a) For the aggregate of Italian banks we have at yet no figures for the total credits outstanding on 31 December 1948, distributed among the various branches of economic activity. We give here the figures for the three Banks of National Interest and the five Public Law Credit Institutes, which at the end of 1938 jointly held 42.5% of the total deposits in all Italian banks, in 1947 held 47.2% and at the end of 1948 held 46.3%. For purposes of comparison we also give the figures for outstanding credits on 31 December 1938 and 31 December 1947.
Source: Report of the Governor of the Bank of Italy for 1948.

Table F

OFFICIAL DISCOUNT RATES AND INTEREST RATES ON BANK OF ITALY ADVANCES
(per cent per annum)

In effect, beginning	Discount rate	Interest rate
September 9,1935	5.00	5.00
May 18, 1936	4.50	4.50
September 11, 1944	4.00	4.50
September 6, 1947	5.50	4.50
April 9, 1949	4.50	4.00

Source: *Bollettino* of the Bank of Italy.

Table G

INTEREST RATES ON TREASURY BILLS
(per cent per annum)

In effect, beginning	1-2 months	3-4 months	5-6 months	7-9 months	10-12 months
August 1, 1935	—	—	—	—	5.00(a)
July 1, 1939	3.25	3.75	4.25	4.75	5.00
September 10, 1942	—	3.00	3.25	3.75	4.00
March 20. 1943	3.25	3.75	4.25	4.75	5.00
September 20, 1944	2.75	3.25	3.75	4.25	4.50
September 21, 1947	3.25	3.75	4.25	4.75	5.00
April 9, 1949	2.75	3.25	3.75	4.25	4.50

(a) 12 months only.
Source: *Bollettino* of the Bank of Italy.

Table H

CARTEL RATES FOR PRINCIPAL ACTIVE AND PASSIVE BANKING TRANSACTIONS
(Per cent per annum)

Maximum authorised rates for passive transactions	April 1, 1934 to Oct. 1, 1944	Effective Feb. 16, 1945
Interest-bearing deposits		
Free deposit accounts	1.50	.50
Free savings books:		
a) small savings	2.50	1.50
b) ordinary savings	2	1
Time-deposit savings books:		
a) for three months or less than 6 months	2.50	1.50
b) for 6 months or longer . . .	3	2
Free savings deposit books for unlimited time, but at reciprocal notice:		
a) 3 months or less than 6 m. .	2.50	1.50
b) 6 months or longer	3	2
Interest-bearing bonds:		
a) term 3 months or less than 6 months	2.50	1.50
b) term 6 months or more . .	3	2
Correspondence current accounts		
Free accounts	1.50	.50
Reciprocal accounts	2	1.50
Time accounts:		
a) for 3 months or less than 6 m.	2.50	1.50
b) for 6 months or longer . . .	3	2
c) for unlimited time with reciprocal 90 days notice	2.50	1.50

Minimum authorised rates for active transactions	Sept. 6, 1947 to April 8, 1949	Effective April 9, 1949
Blank credits:		
a) current account	9.50	8.50
b) direct IOU's discount . . .	8	7
c) bills of exchange discount . .	7.75	6.75
Advances & assisted credits:		
a) guaranteed by State securities and similar	5.50	4.50
b) guaranteed by money deposited		
1) in current account . .	7.50	6.50
2) direct IOU's discount . .	6.50	5.50
c) guaranteed by non-State securities, goods, etc.:		
1) current account	8.75	7.75
2) direct IOU's discount . .	7.75	6.75
Discount of drafts on Italy:		
1) not over 4 months	7	6
2) 4 to 6 months	7.50	6.50
3) over 6 months	8	7
Loans on farm produce:		
1) pooled	7.25	6.25
2) restricted	8.25	7.25
Official discount rate	5.50	4.50
Interest rate on Bank of Italy advances	4.50	4.00

Source: *Bollettino* of the Bank of Italy.

NOTE CIRCULATION, PRICES, WAGES AND SHARE QUOTATIONS IN ITALY

Table I

(Index, 1938 = 100)

Year or month	Note Circulation (a)		Wholesale Prices (c)	Cost of Foodstuffs (c)	Cost of Living (c)	Wage Rates in industry (c)	Share quotations (b)	Fine gold	
	Amount (b) (milliards of lire)	Index						Price of one gram (lire) (d)	Index
1945 December	389.8	1,732	..	..	2,764	..	517	823	3,165
1947 December	795.0	3,537	5,526	6,196	4,929	5,105	1,206	827	3,180
1948 March	804.8	3,577	5,318	6,206	4,919	5,133	1,272	982	3,777
» June	823.0	3,674	5,142	6,111	4,835	5,135	1,091	848	3,261
» September	869.7	3,865	5,767	6,162	4,910	5,417	1,333	936	3,600
» December	970.9	4,316	5,696	5,969	4,917	5,415	1,378	995	9,827
1949 January	926.7	4,119	5,698	5,911	4,985	5,415	1,785.8	1,077	4,142
» February	911.1	4 049	5,656	5,799	4,958	5,421	1,797.4	1,115	4,288
» March	900.2	4 000	5 557	5 686	4,980	5,424	1,809.5	1,055	4,057
» April	912.0	4,053	5,393	5,518	5,052	5,426	1,614.7	1,046	4,023
» May	899.0	3,995	5,283	5,435	5,047	5,426	1,572.4	1,044	4,015

(a) End of year or month. Includes: Bank of Italy notes, Treasury notes, and A-M-lire; (b) *Bollettino* of Bank of Italy; (c) *Bollettino Mensile* and *Bollettino dei Prezzi* issued by the Central Institute of Statistics; (d) Concern's Statistics Centre of Florence.

PRICES AND YIELDS OF ITALIAN SECURITIES BY MAIN CATEGORIES

Table L

Year or month	Government Securities								Share Securities (quoted on the Milan Stock Exchange)	
	Bonds				Treasury Bills		Average			
	Consolidated		Reedemable							
	Price (index number '38 = 100)	Yield (per cent per annum)	Price (index number '38 = 100)	Yield (per cent per annum)	Price (index number '38 = 100)	Yield (per cent per annum)	Price (index number '38 = 100)	Yield (per cent per annum)	Price (index number '38 = 100)	Yield (per cent per annum)
1938	100.0	5.40	100.0	5.37	100.0	5.07	100	5.33	100	5.17
1946	105.3	5.13	112.3	4.78	91.3	5.55	98.2	5.43	781.7	0.54
1947	94.4	5.72	96.1	5.59	73.7	6.88	86.5	6.16	2,235.8	0.48
1948 March	95.4	5.66	75.2	7 14	85.2	5.99	81.5	6.55	1,337.0	1.53
» June	101.1	5.34	87.0	6.17	95.7	5.30	92.5	5.76	1,130.4	3.13
» September	102.1	5.29	86.3	6.22	97.3	5.21	92.7	5.75	1,432.8	2.24
» December	102.7	5.56	87.9	6.11	95 7	5.62	92.7	5.84	1,468.2	2.72
1949 January	103.6	5.21	86.3	6.22	95.8	5.29	92.2	5.78	1,785.8	2.44
» February	104.6	5.16	87.0	6.17	97.3	5.21	93.2	5.72	1,797.4	2.42
» March	104.7	5.16	89.8	5.38	99.0	5.12	95.2	5.60	1,809.5	2.56
» April	105.1	5.14	92.6	5.80	100.4	5.05	96.9	5.50	1,614.7	3.20
» May	105.3	5.13	93.4	5.75	102.0	4.97	98.3	5.42	1,512.3	3.63

Source: *Bollettino* of the Bank of Italy.

WHOLESALE PRICES BY GROUPS OF COMMODITIES

(Index, 1938 = 100)

Table M

Year or month	All Commodities	Foodstuffs		Textiles	Hides, Skins and Footwear	Raw materials, metal and engineering products	Fuels and lubricants	Chemical raw materials and products	Paper goods	Lumber	Bricks, Lime and Cement	Glass
		Vegetable	Animal									
1947 June	5,329	4,185	9,085	6,988	6,796	5,066	3,592	5,565	9,105	7,741	6,060	4,608
» December	5,526	4,393	8,035	6,404	4,953	6,296	4,063	5,815	7,894	6,546	6,309	4,608
1948 March	5,318	4,354	7,720	6,033	4,797	6,009	4,186	6,017	6,751	6,049	6,403	4,608
» June	5,142	4,177	7,085	6,172	4,557	5,851	4,342	5,810	5,560	5,893	6,174	4,889
» September	5,767	5,303	7,790	5,883	4,723	5,795	4,669	5,846	5,167	5,523	5,994	4,889
» December	5,696	5,278	7,678	5,996	5,316	5,712	4,432	5,814	5,164	5,571	5,988	4,889
1949 January	5,698	5,276	7,460	6,065	5,332	5,687	4,313	5,863	5,119	5,608	5,988	4,889
» February	5,656	5,230	7,166	6,199	5,303	5,633	4,114	5,855	5,059	5,624	5,981	4,889
» March	5,557	5,149	6,968	6,205	5,162	5,647	4,024	5,835	4,981	5,683	5,977	4,889
» April	5.393	4,998	6,759	6,178	4,603	5,606	4,029	5,794	4,952	5,747	6,040	4,889
» May	5,283	4,978	6,507	6,105	4,459	5,506	3,949	5,720	4,740	5,700	6,119	4,889

Source: *Bollettino dei Prezzi* of the Central Institute of Statistics.

WAGES AND SALARIES IN ITALY

(Inclusive of family allowances)

(Index, 1938 = 100)

Table N

Categories	1948				1949				
	March	June	Sept.	Dec.	January	Feb.	March	April	May
Industry:									
Specialised workers	4,917	4,272	4,499	4,497	4,497	4,498	4,499	4.499	4 499
Skilled workers	4,281	4,922	5,195	5,187	5,187	5,190	5,193	5,192	5,192
Ordinary workers and semi-skilled labourers	5,337	5,331	5,619	5,618	5,618	5,625	5.628	5,629	5,679
Labourers	5,790	5,802	6,129	6,134	6,134	6,145	6,153	6,156	6,156
General index of Industry	*5,133*	*5,135*	*5,416*	*5,415*	*5,415*	*5,421*	*5,424*	*5,426*	*5,426*
Land Transport	*5,003*	*5,003*	*5,303*	*5,299*	*5,299*	*5,305*	*5,305*	..	..
Government Civil Employees:									
Groups A and B (a)	2,487	2,487	2,839	2,839	3,137	3.137	3,137	3,122	3,122
Group C (b)	3,550	3,550	4,054	4,054	4,336	4.336	4.336	4,316	4,316
Subordinate staff	4,028	4,028	4,906	4,906	5,165	5,165	5,165	5,143	5,143
General Index of Government Civil Employees	*3,114*	*3,114*	*3,601*	*3,601*	*3,887*	*3,887*	*3,887*	*3,870*	*3,870*

(a) Administrative and executive grade.
(b) Clerical grade.
Source: *Bollettino dei Prezzi* of the Central Institute of Statistics.

NATIONAL INDEX OF LIVING COST

(1938 = 100)

Table O

Year or month	All Items	Foodstuffs	Clothing	Heating and lighting	Housing	Miscellaneous
1947 December	4,929	6,196	6,866	2,393	269	4,359
1948 March	4,919	6,206	6,216	2,404	343	4,387
» June	4,835	6,111	5,993	2,354	363	4,317
» September	4,910	6,162	5,750	2,987	377	4,318
» December	4,917	6,149	5,810	3,069	399	4,387
1949 January	4,985	6,221	5,856	3,051	515	4,439
» February	4,958	6,164	5,955	3,086	517	4,489
» March	4,980	6,194	5,984	3,058	520	4,500
» April	5,052	6,302	6,022	3,039	520	4,520
» May	5,067	6,324	6,028	3,022	532	4,507

Source: *Bollettino dei Prezzi* of the Central Institute of Statistics.

UNEMPLOYMENT IN ITALY

Table P

Year or month	Employed and pensioned persons seeking other jobs	Housewives seeking first job	Young people under 21 or ex-servicemen seeking first job	Unemployed formerly employed	Total	
						of which women
1948 October	76,781	193,810	306,171	1,175,425	1,752,187	609,205
» November	82,501	210,305	344,474	1,293,156	1,930,436	656,841
» December	87,386	211,671	363,785	1,498,429	2,161,271	679,502
1949 January	91,036	207,336	380,911	1,547,007	2,226,290	678,271
» February	92,919	205,620	391,456	1,492,152	2,182,147	651,895
» March	92,073	205,261	395,821	1,440,338	2,133,493	656,596
» April	88,948	195,558	379,701	1,373,942	2,038,149	635,445
» May	87,181	195,077	379,874	1,325,057	1,987,189	613,835

Source: Ministry of Labour.

ITALIAN INDUSTRIAL PRODUCTION INDEX (a)

(monthly average 1938=100) **Table Q**

Year or month	General Index	Mining	Manufactures									Elec. tric power
			Total	Tex-tiles	Lum-ber	Paper	Rubber	Che-micals	Petro-leum and coal pro-ducts	Non me-tallic mi-nerals	Metal-lurgical	
1947 - *Average*	93	95	85	92	67	70	91	85	82	90	75	134
January	71	75	64	78	56	53	64	56	37	73	50	105
February	67	78	61	74	53	57	62	52	34	66	47	94
March	83	94	76	88	65	66	87	70	50	75	65	119
April	93	90	86	96	80	70	93	70	59	86	78	134
May	104	96	95	102	80	76	98	95	91	92	90	156
June	103	99	93	98	77	74	96	100	94	93	86	154
July	110	112	99	109	78	83	109	99	91	97	92	164
August	93	99	82	79	64	67	66	98	86	100	79	149
September	100	108	93	104	74	78	107	93	104	83	77	135
October	105	112	98	107	68	85	111	95	112	113	85	137
November	94	96	87	88	58	69	99	93	103	106	80	129
December	91	88	82	82	52	62	100	90	122	100	73	137
1948 - *Average*	98	88	89	91	54	74	102	93	124	94	86	149
January	88	84	79	85	50	60	92	78	87	99	70	137
February	87	85	79	82	50	66	97	79	112	86	77	133
March	94	91	86	86	58	74	95	88	118	89	89	137
April	96	93	88	89	64	74	99	88	104	96	90	140
May	97	86	87	82	53	67	89	102	109	95	96	154
June	100	90	90	86	60	71	87	94	127	93	104	158
July	101	90	91	91	54	73	96	103	?	97	100	160
August	95	87	84	73	42	64	71	108	180	97	83	153
September	100	99	100	98	56	88	115	107	153	100	104	160
October	106	95	98	101	54	90	120	99	145	102	95	152
November	102	87	95	96	53	92	116	99	152	96	91	147
December	102	88	94	94	50	90	117	99	154	98	93	150
1949												
January	95	..	88	90	52	90	108	94	152	80	78	139
February	91	..	86	90	50	85	111	90	132	85	72	119
March	97	..	94	99	58	95	106	93	166	99	82	118

(a) We give in this Table the Italian industrial production index with base 1938=100 as calculated by the Central Institute of Statistics and published for the first time in the April 1949 issue of the Monthly Bulletin of Statistics. These data are to be considered indicative; see also the article of B. Battara in this issue, p. 118.

Source: *Bollettino Mensile* of the Central Institute of Statistics, 1949.

SOURCES OF POWER: SUPPLY AND CONSUMPTION (a)

Table R

	1938		1947			1948				
	Consumption		Supply	Consumption		Supply	Consumption		Percentage changes in consumption from	
	absolute figures	%		absolute figures	%		absolute figures	%	1938	1947
1. Domestic solid Fuels (thousands of tons.) (b)	1,471	3.1	3,352	2,506	5.7	2,548	1,423	3.1	— 3.9	— 43
2. Imported Coal (thousands of tons.)	12,133	46.7	10,007	8,340	32.0	9,821	8,576	32.5	— 29.3	+ 13
3. Electric Power (millions of kWh) (c)	12,982	37.6	19,170	16,295	46.9	21,068	17,908	50.7	+ 37.9	+ 10
4. Petroleum Products (thousands of tons.)	2,182	12.6	3,107	2,682	15.4	3,820	2,440	13.8	+ 11.8	— 9
Total		100.0			100.0			100.0		

(a) The date on consumption have been calculated by subtracting from the total available supplies the aggregate stocks remaining at the end of the year.

(b) Sulcis coal, anthracite, lignite.

(c) Thermoelectric power is excluded.

Source: Report of the Governor of the Bank of Italy for 1948.

ITALY'S GROSS NATIONAL PRODUCT AND NATIONAL INCOME: 1938, 1947 AND 1948
(milliards of 1948 lire and millions of 1948 dollars) (a)

Table S

	1938		1947		1948	
	Lire	Dollars	Lire	Dollars	Lire	Dollars
National income at factor cost	6,000	10,434	5,050	8,782	5,400	9,391
Plus: maintenance	560	974	560	974	560	974
Equals: gross national product	6,560	11,408	5,610	9,756	5,960	10,365
Plus: excess of imports (visible and invisible) over exports	45	078	468	813	235	408
Equals: gross resources for domestic use (b)	6,605	11,486	6,078	10,569	6,195	10,773
Less: maintenance	565	974	560	974	560	974
Equals: net resources for domestic use (b)	6 045	10,513	5,518	9,595	5,635	9,800

(a) Current lire have been converted in 1948 lire on the basis of wholesale prices index compiled by *Istituto Centrale di Statistica*. Lire have been converted into dollars at the current exchange rate of 575 lire=1 dollar.
(b) Goods and services for tourists are included.
Source: Columns 1, 3, 6: Report of the Governor of the Bank of Italy for 1948.

ITALY'S NATIONAL ACCOUNTS: 1947 AND 1948
(milliards of 1948 lire and millions of 1948 dollars) (a)

Table T

	1947		1948	
	Lire	Dollars	Lire	Dollars
National income at factor cost	5,050	8,782	5,400	9,391
Plus: indirect taxes (less subsidies)	430	747	640	1,113
Equals: national income at market prices	5,480	9,530	6,040	10 504
Plus: maintenance	560	974	560	974
Equals: gross national product at market prices	6,040	10,504	6,600	11 478
Plus: imports	877	1,525	852	1,481
Equals: gross availability	6,917	12,029	7 452	12 960
Domestic consumption (private and public)	5,178	9,006	5,525	9,608
Plus: gross domestic investments	1,330	2,313	1,310	2,278
exports	409	710	617	1,074
Equals: gross availability	6,917	12,029	7,452	12,960

(a) For conversion of current lire in 1948 lire and of lire in dollars see note (b) to precedent table.
Source: Columns 1, 3: Report of the Governor of the Bank of Italy for 1948.

GROSS INVESTMENTS IN ITALY BY SECTORS: 1947 AND 1948
(milliards of 1948 lire)

Table U

	1947		1948	
	absolute figures	%	absolute figures	%
Agriculture	110	8.27	160	12.2
Industry	380	28.57	460	35.11
Transports and communications	310	23.31	280	21.37
of which:				
Railways	*130*	*9.78*	*140*	*10.68*
Motor vehicles	*70*	*5.26*	*50*	*3.82*
Post and telecommunications	*25*	*1.88*	*30*	*2.29*
Merchant marine	*85*	*6.39*	*60*	*4.58*
Housing and Public Works	240	18.04	260	19.83
Other (commerce, touring, etc.)	40	3.00	50	3.82
Total fixed investments	1,080	81.20	1,210	92.35
Stocks	250	18.80	100	7.65
Total gross investments	1,330	100	1,310	100

Source: Report of the Governor of the Bank of Italy for 1948.

ITALY'S IMPORTS AND EXPORTS IN 1948

Table V

(millions of lire and dollars)

Years	Imports				Exports				Surplus (+) or deficit (—)	Percentage ratio of imports to exports
	Current lire	Current dollars	Import price index (in dollars)	In 1938 dollars	Current lire	Current dollars	Export price index (in dollars)	In 1938 dollars	Current dollars	
1929	21,303	1,116	. .	. .	14,776	773	. .	. .	— 343	69.3
1929 (1)	21,195	1,100	. .	. .	14,455	757	. .	. .	— 353	68.2
1938	11,273	593	100	593	10,497	552	100	552	— 41	93.1
1938 (1)	11,064	582	100	583	8,049	424	100	424	— 158	72.9
1947	930,634	1,429	204	700	339 238	666	210	317	— 763	46.6
1948	821.416	1,499	232	646	570,735	1,068	214	498	— 431	71.2

(1) Colonial areas excluded.

Source: Report of the Governor of the Bank of Italy for 1948.

ITALY'S BALANCE OF PAYMENTS IN 1948 - CURRENT ITEMS

Table X

(millions of dollars)

	1948			1947		
	Credits	Debits	Surplus (+) or deficit (—)	Credits	Debits	Surplus (+) or deficit (—)
Imports and exports of goods (f.o.b.)	1,067.6	1,388.0	— 330.4	665.6	1,326.9	— 661.3
Foreign travel	26.3	2.4	+ 23.9	6.8	0.4	+ 16.4
Freight	128.3	240.0	— 111.7	92.7	254.2	— 161.5
Transport insurance	9.4	5.2	+ 4.2	6.4	5.9	+ 0.5
Income on investments	0.5	12.8	— 12.3	0.3	5.2	— 4.9
Government transactions . . .	20.9	24.2	— 3.3	11.4	14.7	— 3.3
Emigrant remittances	84.9	—	+ 84.9	34.1	—	+ 34.1
Miscellaneous items	68.3	6.3	+ 62.0	11.4	10.2	+ 1.2
Total	1,406.2	1,678.9	— 272.7	828.7	1,617.5	— 788.8

Source: Report of the Governor of the Bank of Italy for 1948.

ITALY'S IMPORTS AND EXPORTS IN THE FIRST QUARTER OF 1949

Table Y

(millions of dollars)

Month	1949			1948		
	Imports	Exports	Deficit	Imports	Exports	Deficit
January	112.8	94.0	— 18 8	146.7	56.9	— 89.8
February	125.7	90.9	— 34.8	99.9	62.3	— 37.6
March	157.7	100.4	— 57.2	128.5	74.9	— 53.6
April	143.4	86.9	— 56.5	120.3	87.1	— 33.2
Total	539.6	372.3	— 167.3	495.4	281.2	— 214.2

Source: *Statistica del Commercio con l'Estero* of the Central Institute of Statistics.